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May 25, 2012

Section: Local

Online game a long shot even before woes ; 38 studios

Paul Grimaldi

Market for multiplayer online games is competitive; business models shifting

PROVIDENCE -- The layoffs and financial troubles at Curt **Schilling's** 38 Studios leave in doubt the ability of the former Boston Red Sox pitcher to ever finish the video game that he had bet his company on.

But even if he can complete the project, there are questions about whether the game would be a popular seller.

That game, code-named "Copernicus," is intended to be a rich online universe that will entice people to spend not just hours, but literally years of their life exploring. **Schilling** wants to replicate the success of "World of Warcraft," a game that has perhaps 10 million followers who pay a monthly fee to play.

A long-term problem for **Schilling** is not limited to how costly it will be to finish that game and get it to market a year from now -- perhaps \$40 million or more -- but whether there will be enough people willing to commit their time and money to play even a wondrously crafted, cinematic game.

One million regular players for what's known as a massively multiplayer online game, which is what "Copernicus" intends to be, might be the bare minimum needed to sustain the new game and 38 Studios, according to industry analysts.

"In reality, MMO is one of the most competitive markets in this industry," said Mike Hickey, a research analyst with National Alliance Capital Markets in Texas. "The majority of MMO releases don't work. For the most part, these things fail."

No one, certainly not the strong-willed former athlete **Schilling**, could be encouraged by the recent performance

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of "Star Wars: The Old Republic."

A multiplayer game like "Copernicus," high-profile "Star Wars" (created in conjunction with game developer BioWare) recently recorded a sharp drop in subscribers. The news issued earlier this month by "Star Wars" publisher Electronic Arts surprised industry watchers. Wall Street punished Electronic Arts for its unwelcome surprise by cutting the public company's stock price to its lowest level in a decade.

The "Star Wars" release had a lot going for it: established brand name, plentiful development resources, huge marketing budget and a polished release.

"It still barely achieved success and is exhibiting deteriorating subscriber levels," Hickey said.

Should "Copernicus" make its debut it won't have the gamer field to itself. Other MMOs are scheduled for release in 2013. One will be the multiplayer version of the popular "Elder Scrolls" game. Blizzard Entertainment - the "World of Warcraft" developer -- has a game release aimed for next year. Bungie has one currently code-named "Destiny."

Other game developers have headed in a different direction.

These latter developers may still want to attract millions of players, but they want to get them one at a time, and not in front of a computer screen or game console.

"Gamers have more choices now than when 38 Studios began [its] journey," said Barry Gilbert, of Strategy Analytics. "Games on mobile devices and tablets have captured the imagination."

The rise of the cell phone as a gaming device has given people a new way to play games. Mobile games are simpler to play and require less time and dedication than console titles.

Digital games such as "Angry Birds" began capturing attention as smartphones dispersed widely into the marketplace. The success of that time-consuming game has reached the point where its developer, Rovio Mobile, plans to sell stock to the public in 2013.

Another issue for Schilling is how 38 Studios could make money from "Copernicus." Revenue models evolve as steadily as tastes in games.

"Free-to-play has become the long-term business model for MMOs," said Billy Pidgeon, a game analyst with M2 Research in California.

When such games first debuted, people paid perhaps \$50 to buy the initial game and then perhaps \$15 a month

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to continue playing.

More recently, game developers began switching to free-to-play. In that model, access to the initial game is free but players pay for character attributes, items such as weapons or special powers used within the game. There are numerous variants on this model.

Turbine Inc., the Massachusetts developer of "Dungeons & Dragons Online" and "Lord of the Rings Online," uses the free-to-play model.

So, Schilling and the State of Rhode Island have millions of dollars riding on a game that could be born into a nastily competitive, constantly changing, environment -- not unlike how players enter the fantasy world of "Kingdoms of Amalur: Reckoning," the single-player game 38 Studios released in February.

"It's an 'all-in' poker hand," Gilbert said. "You don't know what you're going to get back until you release it." pgrimald@providencejournal.com (401) 277-7356

---- INDEX REFERENCES ----

COMPANY: ELECTRONIC ARTS INC; NATIONAL ALLIANCE; ROVIO MOBILE LTD; TURBINE INC

INDUSTRY: (Application Software (1AP32); Consumer Electronics (1CO61); Consumer Products & Services (1CO62); Consumer Video Products (1CO02); Electronic Interactive Entertainment (1EL14); Electronics (1EL16); Entertainment (1EN08); Entertainment Multimedia Titles (1EN60); Games Software (1GA28); Home, Personal & Consumer Software (1HO01); I.T. (1IT96); PC, Video & Online Games (1PC44); Software (1SO30); Software Products (1SO56))

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May 25, 2012

A day after 38 Studios lays off workers, **Schilling** tweets 'thank you' to supporters
Maria Armental
The Providence Journal, R.I.

May 25--PROVIDENCE, R.I. -- Curt **Schilling**, founder and chairman of troubled Providence-based video game developer 38 Studios, took to Twitter again Friday morning -- the primary means of communicating with the public the former Red Sox player has used since his company's financial strains publicly unraveled this month.

"Thank you to everyone sending prayers and well wishes to the team and families of 38 Studios," **Schilling** tweeted at 2:56 a.m.

Thursday the company laid off all workers.

"To avoid further losses and possibility of retrenchment, the Company has decided that a companywide lay off is absolutely necessary," the company told employees by e-mail Thursday afternoon.

Schilling has rebuffed public comments telling reporters when he emerged from a meeting Monday with Governor Chafee and the Rhode Island Economic Development Corporation: "There is so much misinformation out there that I cannot begin to clear it up with a sound bite."

Instead, **Schilling** has turned to social media to rally support for his ailing company.

On Wednesday, he challenged Chafee's statements that the company's first game, released in February, was "an abject failure."

"Reckoning, 38 Studios first game, has outperformed EA's projections by selling 1.2mm copies in its first 90 days," **Schilling** tweeted, referring to his publisher, Electronic Arts.

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When asked by another Twitter user "does that mean you're going to pay back your govt bail out money?," Schilling replied: "Haven't received a penny of it, and have not asked for any."

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COMPANY: ELECTRONIC ARTS INC; TWITTER INC; RHODE ISLAND PORT AUTHORITY AND ECONOMIC DEVELOPMENT CORP

INDUSTRY: (Application Software (1AP32); Consumer Electronics (1CO61); Consumer Products & Services (1CO62); Consumer Video Products (1CO02); Electronics (1EL16); Games Software (1GA28); Home, Personal & Consumer Software (1HO01); I.T. (1IT96); Internet (1IN27); Internet Media (1IN67); Internet Software (1IN50); Online Social Media (1ON38); PC, Video & Online Games (1PC44); Software (1SO30); Software Products (1SO56))

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OTHER INDEXING: (RHODE ISLAND ECONOMIC DEVELOPMENT CORP) (Chafee; Curt Schilling)

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May 25, 2012

BRIEF: R.I. Labor Department helping 38 Studios employees navigate unemployment-insurance filings
 Kate Bramson
 The Providence Journal, R.I.

May 25--PROVIDENCE, R.I. -- An emergency response team from the Rhode Island Department of Labor and Training is meeting with the former employees of 38 Studios on Friday.

The DLT workers will help the 38 Studios team understand who's eligible for unemployment benefits and how to file, and alert them to the kinds of assistance the department can offer as they seek other jobs, said Nicole Romeo, a spokeswoman in the DLT's marketing and public relations unit. Romeo does not know how many 38 Studios workers might attend the session.

The DLT help occurs just one day after a 38 Studios executive e-mailed all of the employees at Curt Schilling's video-game company and told them they were being laid off effective on Thursday.

38 Studios employees who couldn't meet with the DLT's emergency response team today can visit a netWORKri center, in Pawtucket, Providence, Wakefield, West Warwick or Woonsocket, or visit networkri.org

More news on 38 Studios

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May 25, 2012

BRIEF: Sign on 38 Studios door: 'We (heart) Curt'
Andy Smith
The Providence Journal, R.I.

May 25--PROVIDENCE, R.I. -- "We (heart) Curt," says a sign on the door of 38 Studios.

Curt Schilling's videogame company laid off all its employees Thursday, but people are coming and going from the company's One Empire Plaza headquarters, where representatives of the state Department of Labor and Training are scheduled to offer "rapid response" services to displaced workers.

At the company's door, a recruiter for Warwick's Atrion Networking Corporation, Attracta Pryor, is passing out fliers seeking software and network engineers.

"We want to retain top talent in Rhode Island," Pryor said. And, she said, 38 employees are taking her fliers.

Employees are still declining to comment.

More news on 38 Studios

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(1HE30); Labor Relations (1LA21); Labor Unions (1LA31))

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OTHER INDEXING: (WARWICKS ATRION NETWORKING CORP) (Curt Schilling)

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May 25, 2012

BRIEF: 38 Studios employee: Just trying to make a cool game
 Andy Smith
 The Providence Journal, R.I.

May 25--PROVIDENCE, R.I. -- The former director of audio at 38 Studios said Friday that as of a week ago, employees there were still hoping the company would survive.

Aubrey Hodges said he left Curt Schilling's videogame company May 18 for reasons unrelated to 38 Studios' financial problems.

"I'm not going to comment on blame," said Hodges. "I just went to work and did my job. The business people were supposed to do their jobs. . .

"Good God, how would I assess the blame? I was just responsible for making a really cool game."

More news on 38 Studios

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& Online Games (1PC44); Publishing (1PU26); Software (1SO30); Software Products (1SO56); Traditional Media (1TR30))

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May 25, 2012

R.I. AFL-CIO president says he rebuffed Chafee request for his resignation over 38 Studios vote
Kate Bramson
The Providence Journal, R.I.

May 25--PROVIDENCE, R.I. -- Economic Development Corporation board member George Nee, who voted for the deal in 2010 that lured Curt Schilling and his video-game company to Providence, says he told Governor Chafee he will not quit his board post.

Nee, president of the AFL-CIO of Rhode Island, said Friday that Chafee called him Wednesday, asking him to resign. "I gave him a phone call this morning and told him my decision is, I will not resign from the board."

Nee said the governor linked his request for Nee to step down to the vote that gave Schilling's 38 Studios a \$75-million state-backed loan guarantee.

"He said that it would be better to have a clean slate," Nee said. " ... He just said that it was a bad decision."

Nee said he doesn't want to delve into the specifics of that vote, but "based on the information that we had before us at the time, and based on people who had given us information, I thought it was an opportunity for the state to go forward and to help create an industry that would be beneficial to the state and create good-paying jobs."

Nee's term on the board is one of three that expired Feb. 1, which leaves Chafee with the power to nominate a new board member despite Nee's desire not to go. "That's clearly his prerogative, to reappoint me or someone else," Nee said.

But no one becomes a member of the EDC board without Senate confirmation, and Nee said he will continue to attend board meetings until the Senate approves his replacement.

More news on 38 Studios

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May 24, 2012

Section: Local

Chafee raises questions on firm's success ; 38 Studios

Kate Bramson; KATHERINE GREGG

Governor looks to outside experts for advice, cites 'difficult' dealings with Schilling's firm; employees mum on company's status

PROVIDENCE -- Governor Chafee said Wednesday that Curt Schilling's 38 Studios has not received outside investments or millions of dollars in state tax credits to relieve the financial stress on the video-game company.

He also said communication with 38 Studios has been "frustrating" and "difficult," but he has heard there have been layoffs and that top executives have left.

Chafee said he is relying on the advice of industry, legal and financial experts about the plight of 38 Studios. He declined to identify the experts, saying they all wanted confidentiality.

"This is an industry that punishes people that don't know what they're doing," he said one of the experts told him. He added that he was doing everything he could to prevent the company from closing.

About a dozen people left the 38 Studios headquarters in downtown Providence on Wednesday between 5:30 and 6:30 p.m., striding past reporters and TV cameras. Three or four were carrying boxes or large bags. Most of them declined to comment.

"It is what it is," said one man when asked what was happening inside the building.

Schilling's company was lured in 2010 to Providence from Massachusetts with a \$75-million state loan guarantee approved by the Rhode Island Economic Development Corporation.

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Chafee answered the media's questions about 38 Studios at a hastily arranged news conference at the State House on Wednesday.

Chafee said experts recently told him the performance of the company's first game, released in February, was the key to whether the company could then attract additional investors.

Although industry experts and sales have indicated the game had decent results, Chafee said Wednesday that an expert now tells him the game was "an abject failure."

Late Wednesday night, on his Twitter account, @gehrig38, Schilling tweeted, "Reckoning, 38 Studios first game, has outperformed EA's [Electronic Arts] projections by selling 1.2 mm copies in its first 90 days."

Analysts note that obtaining exact sales figures for video games is often difficult because they are sold online and in brick-and-mortar outlets.

Chafee said how much money 38 Studios needs is a "good question," but one for which he has no answer.

Chafee responded with annoyance to General Treasurer Gina M. Raimondo's questions and comments, a day earlier, about how much he and his economic-development team did to head off the financial meltdown at 38 Studios, and how closely they monitored the situation. The two are potential political opponents in 2014.

Democrat Raimondo said she didn't have enough details to criticize the way the EDC, chaired by Chafee, handled 38 Studios. But she said companies do not run out of money overnight, and taxpayers are entitled to a public accounting of "what went wrong."

Asked about her comments, Chafee said he would prefer Raimondo focus her attention on the pension-funding crisis in many cities and towns.

"Treasurer Raimondo is going to be a critic," he said. "I would just say to her, 'If you focus on the pension issue where we needed some help, particularly on the municipal pensions, I'd be much more grateful.'"

"We still have the Cranston pension plan at, what, 15 percent? We've got another plan [funded] at 20 percent. This is where we need help right now. I'd really appreciate her ... helping with some of these city and town issues, especially pensions which is in her bailiwick.

"She's free to be critical, but she better be factually accurate. On this, she is not. We did everything possible. 'Kingdoms of Amalur' ... just didn't make it," he said, referring to the game released by 38 Studios.

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Under the terms of the state's loan guarantee, 38 Studios received \$47.4 million to be used for the development of its second game, a multiplayer online game that has been code-named Copernicus. When the EDC issued the \$75 million in bonds to raise that capital, it set aside the rest in accounts to pay the first two years of interest on the bond proceeds and to hold as reserve in case the company misses payments it's scheduled to start next year.

If Schilling's company misses the payments on the bonds, the taxpayers could be responsible for up to \$102 million over eight years to pay back the bondholders.

During a radio interview Tuesday night, Chafee said he's "lucky" to be getting advice about 38 Studios from experts at Providence Equity Partners, a private equity firm based here that has more than \$23 billion invested in media, communications, education and information companies worldwide.

Investing in video-game companies is part of the firm's investment portfolio, although Providence Equity has concentrated on just one U.S. game developer -- the Maryland-based ZeniMax, where it has invested at least \$450 million since an initial October 2010 investment. Michael J. Dominguez, a managing director at the firm, holds a seat on the board of directors for ZeniMax, which includes CBS Corp. president and CEO Leslie Moonves and baseball Hall of Famer Cal Ripken Jr.

Neither Chafee nor a spokesman for Providence Equity has named those at the firm with whom the governor is consulting.

Three Brown University graduates -- Paul J. Salem, Jonathan Nelson and Glenn Creamer -- began the firm in 1989 and remain in Providence, although their firm's worldwide locations include New York, Hong Kong and New Delhi. Journal staff writers Andy Smith and Paul Grimaldi contributed to this report.

People leave 38 Studios on Empire Street in Providence on Wednesday afternoon. "It is what it is," said one man when asked what was happening inside. The Providence Journal / Bob Thayer

Governor Chafee holds a news conference addressing 38 Studios at the State House Wednesday. The Providence Journal / Connie Grosch kbramson@providencejournal.com (401) 277-7470 On Twitter @JournalKate

--- INDEX REFERENCES ---

COMPANY: CBS CORP; ELECTRONIC ARTS INC; PROVIDENCE EQUITY PARTNERS LLC; ZENIMAX MEDIA INC; PROVIDENCE EQUITY PARTNERS LTD; RHODE ISLAND PORT AUTHORITY AND ECONOMIC DEVELOPMENT CORP; PROVIDENCE EQUITY PARTNERS LLC; PROVIDENCE EQUITY PARTNERS INC

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Personal & Institutional Investing (IPE62); Software (ISO30); Software Products (ISO56))

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May 24, 2012

BRIEF: **Schilling** claims 38 Studios' first game exceeded predictions
 Jack Perry
 The Providence Journal, R.I.

May 24--PROVIDENCE, R.I. -- Amid all the questions about the performance and finances of his 38 Studios, former Red Sox pitcher Curt **Schilling** claims the company's first game has sold well.

Schilling posted the following message on Facebook last night: "I wanted to clear up some misinformation around 38 Studios first product, Reckoning. Sales of Reckoning OUTPERFORMED EA's [Electronic Arts, distributor of **Schillings'** game] expectations and sold more than 1.2 million units in the game's first 90 days in the market."

He made a similar statement via his Twitter account @gehrig38.

At a news conference Wednesday afternoon, Governor Chafee said he'd been told that an expert had told him the game has been "an abject failure."

Rhode Island officials lured **Schillings** company from Massachusetts in 2010 with a \$75-million loan guarantee.

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May 23, 2012

Section: Local

Questions abound on firm's status ; 38 Studios

Katherine Gregg; ANDY SMITH

Governor says Schilling's video-game company has been 'stonewalling' state on its financial health; state general treasurer raises questions of oversight

PROVIDENCE -- Governor Chafee told a radio talk-show audience on Tuesday that former Red Sox pitcher Curt Schilling's struggling video-game company, 38 Studios, will not receive the \$8.4 million in film tax credits it is seeking from the state without strong evidence they would not be in vain.

"I want to know with absolute certainty and finality that we're going to get somewhere that's going to be profitable before another penny goes in," Chafee said.

Speaking on former Providence Mayor Vincent A. Cianci Jr.'s radio show on WPRO-AM, Chafee said the company has been "stonewalling" the state's requests for information.

With the fate of a \$75-million, state loan guarantee hanging in the balance, Chafee said: "Let's hope we can rescue it."

"It all depends on that game making it or not making it," Chafee said of "Kingdoms of Amalur: Reckoning," the role-playing fantasy game that 38 Studios released in February.

Chafee said the "experts" with whom he consulted told him: "If that was successful, that's when the private money would have come in."

Instead the company defaulted on a \$1.1-million payment due the state May 1, triggering high-level concern about 38 Studios' solvency. The payment has since been made. At this point, however, Chafee said, his adminis-

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tration is "not sure if they are making payroll."

Chafee's on-air comments came on the same day General Treasurer Gina Raimondo raised her own questions about how closely Chafee and his economic-development team "monitored" what was happening at 38 Studios during the 17 months he has been in office and chairman of the state's Economic Development Corporation (EDC).

"If it is the case, as has been reported, that the company has run out of money or is about to do that, or if it is the case, as it has been reported, that the company is very behind its product-development schedule and it is not going to launch the next game until next June, that didn't happen overnight," Raimondo said in a telephone interview.

"A company does not run out of money overnight. A company is not a year behind [on] product development overnight. So the question is: how has the state been monitoring this investment; how and what has the governor and his staff, in conjunction with the EDC ... how have they been working the deal?"

Raimondo, a Democrat with high poll ratings who has not ruled out a potential run for governor in 2014 against Chafee, noted that both she and Chafee were among the 2010 candidates for high office who opposed the \$75-million loan guarantee that former Republican Gov. Donald L. Carcieri championed for fellow conservative Curt Schilling's start-up company, in the waning months of his administration.

But a year and a half into a new administration, Raimondo said what "we need to do actually is figure out what went wrong here ... so we don't make these mistakes again, because we do need to continue to go forward with economic development and the sooner we can understand where it went wrong, the more prepared we will be for attracting and retaining companies and limiting future risks."

Was she suggesting something went wrong? "No. Not necessarily. I just don't know."

But "everyone knew going into this, this [was] a high-risk venture. Clearly there was no disagreement about that," she said. "We had a lot of our eggs in one basket, \$75 million in a pre-revenue start-up company ... [and] anytime you invest in a start-up company, there's a lot of risk. The way to mitigate the risk is to work very closely with the company, to help them build their company, to help them raise private capital."

Raimondo, a venture capitalist before taking office, said her staff has now called Chafee's office several times asking for a briefing on the 38 Studios financial situation, and has not gotten one so she does not know the extent of 38 Studios' financial distress.

She said there is no implied criticism in her comments because "I do not have the details," but "\$100 million [what it possibly could cost taxpayers if 38 Studios defaults on the loan] is not a small amount of money and so it was absolutely the state's responsibility to be all over this investment, be monitoring it closely ... [and] offer-

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ing assistance in whatever way possible.

"I know after an investment is made in a start-up company ... you need to keep working the deal in order for it to be successful. Start-up companies are fragile enterprises and they need to be nurtured," she said.

Chafee spokeswoman Christine Hunsinger did not respond directly to Raimondo's comments, after they were relayed to her, stressing instead the leadership that she said Chafee had shown as a candidate, trying in vain to persuade the EDC to put the loan guarantee on hold, and then as governor, doing "an incredible amount of due diligence" before signing off on any more taxpayer relief for the company, in the form of tax credits.

Tax credits are a marketable commodity that a movie, TV or video- game producer can sell -- at discounted rates -- to any person or company with a Rhode Island income-tax liability, to raise cash.

While Chafee was on air with Cianci, the former mayor asked the governor if he had been "paying attention" in his 17 months as EDC chairman.

Chafee said anyone can "say we could have done this, we could have done that. But the bottom line is that [the] game that came out in February, 'Kingdoms of Amalur'...if that was successful, that's when the private money would have come in. It was not...."

The governor said his administration was lucky in having "pro bono" advice from bankruptcy lawyer John Savage when the company first sought the tax credits, amid growing questions about its financial situation.

By sticking to the "letter of the law," Chafee said, "we were very successful at heading off [38 Studios'] efforts to get access to those film credits. And that was a dicey moment for a while."

As of Tuesday, Chafee said, his administration is still waiting for the documentation on how well 38 Studios' firstand only video game has performed. "We are trying to get that information. It's hard.... There's a lot of stone walls up, but we are getting through them," Chafee said. "It hasn't been easy." kgregg@providencejournal.com (401) 277-7078 asmith@providencejournal.com (401) 277-7485

--- INDEX REFERENCES ---

COMPANY: JOHOR CORP

NEWS SUBJECT: (Campaigns & Elections (1CA25); Corporate Funding (1X017); Funding Instruments (1FU41); Taxation (1TA10); U.S. Congressional Campaigns (1US07); Venture Capital (1VE73))

INDUSTRY: (Accounting, Consulting & Legal Services (1AC73); Consumer Electronics (1CO61); Consumer Products & Services (1CO62); Consumer Video Products (1CO02); Electronics (1EL16); Financial Services (1FI37); PC, Video & Online Games (1PC44))

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REGION: (Americas (1AM92); North America (1NO39); Rhode Island (1RH18); U.S. New England Region (1NE37); USA (1US73))

Language: EN

OTHER INDEXING: (Chafee; Christine Hunsinger; Curt Schilling; Donald Carcieri; Gina Raimondo; John Savage; Vincent Cianci Jr.)

EDITION: All

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May 23, 2012

Section: Local

Schilling workers sought at job fair ; providence

Andy Smith

Mass. game company attracts about 300 people to recruiting event

PROVIDENCE -- Area companies appear eager to hire the technologically savvy employees of 38 Studios, Curt Schilling's troubled video-game company.

About 300 people attended a job fair Tuesday night at the Hotel Providence held by Turbine Inc., a Massachusetts game company. The hotel, at 311 Westminster St., is just a few blocks from the headquarters of 38 Studios at One Empire Plaza in downtown Providence.

"It's no coincidence that we're down here looking for talent," said Turbine spokesman Adam Mersky.

Mersky said turnout was higher than expected, with people lining up before the event started at 5 p.m. Mersky said some applicants had come from as far as New York and Connecticut.

He said employees of 38 Studios were on hand, but he declined to estimate how many.

A few people at the Turbine job fair were wearing jackets or sweatshirts with 38 Studios logos, but they all refused to comment or even admit they worked for the company.

Another video-game company, Avalanche Studios, is planning a recruitment event Thursday at The Westin Providence hotel.

It's not just game companies.

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"Excited to interview talented folks at 38 Studios," wrote Angus Davis, founder of Providence Internet company Swipely, on Twitter. "Eager to keep tech talent here in RI."

As of Jan. 31, the Rhode Island Economic Development Corporation had certified 251 employees at 38 Studios. Since then, spokeswoman Judy Chong said, she has been told there are 290 employees. asmith@providencejournal.com (401) 277-7485

---- INDEX REFERENCES ----

COMPANY: 38 STUDIOS LLC; SWIPELY INC; TURBINE INC; TWITTER INC; TURBINE INC; RHODE ISLAND PORT AUTHORITY AND ECONOMIC DEVELOPMENT CORP

NEWS SUBJECT: (Business Management (1BU42); HR & Labor Management (1HR87); Recruitment & Hiring (1RE84))

INDUSTRY: (Consumer Electronics (1CO61); Consumer Products & Services (1CO62); Consumer Video Products (1CO02); Electronics (1EL16); Energy Industry Environmental Issues (1EN22); Environmental Solutions (1EN90); Hotels (1HO42); PC, Video & Online Games (1PC44); Renewable Energy Sources (1RE65); Travel & Tourism (1TR07))

REGION: (Americas (1AM92); North America (1NO39); Rhode Island (1RH18); U.S. New England Region (1NE37); USA (1US73))

Language: EN

OTHER INDEXING: (AVALANCHE STUDIOS; RHODE ISLAND ECONOMIC DEVELOPMENT CORP) (Adam Mersky; Angus Davis; Curt Schilling)

COMPANY TERMS: TURBINE INC

EDITION: All

Word Count: 241
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May 23, 2012

Section: Lifebeat/Food

Another pitch for a can't miss video game scheme

Dear Rhode Island Economic Development Corp:

Have I got a deal for you.

I've often wanted to start a business, but know it's hard to win over investors -- especially ones willing to shell out millions. Banks are tight-fisted. Venture capitalists aren't easy, either.

That's why I was delighted to see Rhode Island government has a more lax approach. You pledged \$75 million to a barely-tested company called 38 Studios. As you know, it designs video games. I'd have assumed no state would plow taxpayer money into a company like that, and if so, it would surely be one with a track record, like Nintendo. But the EDC gave \$75 million to a novice who hadn't produced a single game yet.

Excellent. That means there's hope for me.

The novice in this case is Curt Schilling. He wasn't known for creating "Mario Brothers" or "Call of Duty." He was a pitcher for the Boston Red Sox. Yet he got a ton of our taxpayer money anyway. God bless the EDC!

In return, Schilling pledged to bring his company here from Massachusetts and ultimately create 450 jobs. At one point, he was indeed issuing over 250 Rhode Island paychecks, but now they're having trouble meeting payroll -- so who knows? Oh, they did move to downtown Providence, but it's kind of sketchy; they've refused to let reporters in their building. As far as I know, there have been no reports of an influx of 38 Studios techies moving here and buying houses. And no reports of lots of locals being hired.

Oh -- and weirdly, the company still has a Massachusetts number.

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But I like that approach. Personally, as a would-be loan recipient, I think accountability is a pain.

So I'm officially requesting \$75 million to start my own video game company. It could even create ... what's that word? ... synergy. Between 38 Studios and myself, we could start making Providence the Silicon Valley of video games.

I'm even an expert in this area since I have two sons who've spent more time playing such games than Vladimir Horowitz spent playing the piano. I know this world. I think it's a noble goal to give teen boys a product that will make them stare like zombies for hours at a TV screen while trying to kill medieval cave trolls.

If 38 Studios tanks, taxpayers will have to cover the whole thing. That's odd since Schilling's got money. During his career as a star pitcher from 1990 to 2008, including five years on the Red Sox, he made well over \$100 million. The man's not poor. Oh, and Schilling clearly figured out Rhode Island government is a gravy train because he's asked for millions more in "movie" tax credits from a different department here. If \$75 million from the EDC isn't enough -- just ask for another \$10 million or so from another government branch. What a great state for a start-up!

It seems 38 Studios had a brief success this year with its first game, called "Kingdoms of Amalur." But it's just for single-players and apparently the big money's in multi-player games. Indeed, 38 Studios says they're hoping to launch one of those. A year from now. They're asking Rhode Island for more money to make ends meet until then. Of course, even if they do get that game launched, there are no guarantees. Analysts say the odds of a new firm's new game becoming the Next Big Thing is like putting \$75 million on one number in roulette.

Which is exactly why I love you guys at the EDC. You're willing to make those bets.

My only request is that if I fail, Rhode Island taxpayers have to bail out the whole loan. That seems to be Schilling's deal, so it's only fair I get the same.

Thanks in advance! Feel free to reach me at my Massachusetts number.

mpatinki@providencejournal.com (401) 277-7370

---- INDEX REFERENCES ---

COMPANY: NINTENDO CO LTD

INDUSTRY: (Application Software (1AP32); Baseball (1BA48); Consumer Electronics (1CO61); Consumer Products & Services (1CO62); Consumer Video Products (1CO02); Electronics (1EL16); Entertainment (1EN08); Games Software (1GA28); Home, Personal & Consumer Software (1HO01); I.T. (1IT96); Music (1MU57); Musical Instruments (1MU36); PC, Video & Online Games (1PC44); Software (1SO30); Software Products (1SO56); Sports (1SP75))

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REGION: (Americas (1AM92); Massachusetts (1MA15); North America (1NO39); Rhode Island (1RH18); U.S. New England Region (1NE37); USA (1US73))

Language: EN

OTHER INDEXING: (DEAR RHODE ISLAND ECONOMIC DEVELOPMENT CORP) (Curt Schilling; Vladimir Horowitz)

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May 22, 2012

Section: Commentary

Reckoning wrong: R.I.'s very own Solyandra debacle

Edward Achorn

If anyone seeks an object lesson in the dangers, if not outright stupidity, of crony capitalism, Rhode Island's 38 Studios debacle would be a good place to start.

Two years ago, then-Gov. Donald Carcieri, a Republican, and the Rhode Island Economic Development Corporation, acting on reckless legislation without proper controls passed by the Democrat-dominated General Assembly, decided to gamble an enormous amount of taxpayer money on a baseball star's dream of running a company that designs really cool video games.

Though you and I have been put on the hook for still unknown millions of dollars in loans, our leaders still refused last week to fully inform us about the status of "our" investment. Governor Chafee did concede that it was "fair to say" that 38 Studios, run by former Red Sox pitcher Curt Schilling, was looking for even more help from us after having defaulted on its agreement with Rhode Island, missing a \$1.1 million payment due May 1.

Wonderful.

Many of us without weighty experience in finance -- including then-candidate Chafee -- knew two years ago that this was an awful idea. The Boston area is crawling with private venture capitalists, but none thought that such a gamble on 38 Studios was prudent. Seven other states, including Massachusetts, also took a pass.

Yet Rhode Island insiders, the suckers of America, stormed ahead, before the public had a chance to fully vet the plan. The EDC, whose members include such political luminaries as AFL-CIO President George Nee, voted 8-1 for this disaster. A handful of insiders knew of the scheme for months, but kept it secret from those of us who would pay the bills -- worried that another state or a Canadian city would outbid them for 38 Studios. (If only we could have been so lucky!)

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The buzzwords-filled arguments were the usual: that government better understands how to incubate business than the private sector. By luring Mr. Schilling to downtown Providence, we would supposedly attract all sorts of innovative companies.

"It was about establishing the company as a catalyst for a broader digital-media cluster in Rhode Island. As an anchor tenant, 38 Studios will be a magnet for other related businesses that will set up shop here and generate thousands of additional jobs in our state," wrote then-EDC Executive Director Keith Stokes.

Mr. Stokes, forced out last week, sure seemed to get that wrong. But we often hear from government officials that their brilliant "investments" of taxpayer dollars will reap great returns.

Many of us remember how President Obama's Energy Department proceeded, in defiance of numerous red flags, with throwing a \$535 million taxpayer-guaranteed loan at Solyndra, a solar-panel maker with a very bad business plan.

The Obama administration brazenly ignored the company's non-investment-grade rating by Fitch, and rubber-stamped its approval in March 2009 as part of the celebrated stimulus. It promised this "investment" would create 4,000 jobs.

Exploiting the scheme, President Obama paid a showy visit to the plant, calling Solyndra "a testimonial to American ingenuity and dynamism." He did not mention what an audit two months earlier by PricewaterhouseCoopers LLP had found: "The Company has suffered recurring losses from operations, negative cash flows since inception and has a net stockholders' deficit that, among other factors, raise substantial doubt about its ability to continue as a going concern."

Needless to say, this testament to ingenuity and dynamism went under, throwing 1,100 employees onto the street, and leaving you and me with the bill for the loans.

Politicians from both parties love to spin the roulette wheel, betting our money, in the name of "creating jobs."

In practice, such crony capitalism fails repeatedly. Politicians don't understand technology very well. They tend to use taxpayer funds corruptly, to cozy up to celebrities or reward campaign supporters. It's human nature that people spend someone else's money much less prudently than they would spend their own.

It is through the marketplace, through millions of investors making millions of complex decisions with their own money, that ideas and innovations get tested the most rationally and efficiently.

Instead of blowing tens of millions of taxpayer dollars backing risky ventures, Rhode Island would do vastly better by creating an environment where business innovation could flourish. We know how to do that. Dramatic-

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ally scale back regulations that pointlessly hamper business. Make our taxes competitive. Provide an infrastructure for growth -- with good public schools, ports, highways, public transportation.

Some people say that the odds are better of 38 Studios' hitting the video-game jackpot than Rhode Island undertaking common-sense reforms. But we can always dream.

Screen shot from 38 Studio's "Kingdoms of Amalur: Reckoning" Courtesy of 38 Studios Edward Achorn (ea-
chorn@providencejournal.com) is The Journal's deputy editorial-pages editor. Edward Achorn (ea-
chorn@providencejournal.com) is The Journal's deputy editorial- pages editor.

---- INDEX REFERENCES ----

COMPANY: PRICEWATERHOUSECOOPERS LLP; RHODE ISLAND PORT AUTHORITY AND ECONOMIC DEVELOPMENT CORP

NEWS SUBJECT: (Corporate Funding (1XO17); Economic Development (1EC65); Economics & Trade (1EC26); Funding Instruments (1FU41); Government (1GO80); Legislation (1LE97); Taxation (1TA10); U.S. Legislation (1US12); Venture Capital (1VE73))

INDUSTRY: (Accounting, Consulting & Legal Services (1AC73); Financial Services (1FI37))

REGION: (Americas (1AM92); Massachusetts (1MA15); North America (1NO39); Rhode Island (1RH18); U.S. New England Region (1NE37); USA (1US73))

Language: EN

OTHER INDEXING: (RHODE ISLAND ECONOMIC DEVELOPMENT CORP) (Barack Obama; Chafee; Curt Schilling; Donald Carcieri; George Nee; Keith Stokes)

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May 22, 2012

Section: Local

Parsons filling in temporarily as director of EDC ; 38 Studios

Kate Bramson

Replacement for Keith Stokes has yet to be named, but it won't be Colin Kane, head of Route 195 commission

PROVIDENCE -- William J. Parsons, deputy director of the state Economic Development Corporation, has been in charge of the day-to-day operations at the agency since Executive Director Keith W. Stokes resigned late Wednesday, amid state efforts to keep Curt Schilling's embattled video-game company, 38 Studios, solvent.

It was still unclear Monday when Governor Chafee and the EDC's board of directors would name a permanent replacement for Stokes.

One thing is clear. It won't be Colin P. Kane, who now chairs the Route 195 Redevelopment District Commission. He and the governor talked last Wednesday about whether Kane might replace Stokes, even on an interim basis.

But Kane told The Providence Journal on Friday, "I will not be the EDC director, but certainly continue to work really hard at 195."

Chafee tapped Kane last summer to serve as the unpaid chairman of the Route 195 Commission.

Chafee spokeswoman Christine Hunsinger said she did not anticipate that a new EDC director would be named on Monday.

Stokes was the EDC leader who helped broker the controversial \$75-million loan guarantee that lured 38 Studios to Rhode Island more than a year ago. He was working at the time in the administration of Gov. Donald L. Carcieri.

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As Chafee and the EDC board scrambled last week to learn more about the struggling video-game company's finances, Stokes resigned late Wednesday, a decision he and the governor announced Thursday morning.

Parsons remains the EDC's deputy director and has not taken on an interim title of executive director, Hunsinger said.

This is at least the fourth time that Parsons has stepped up to lead the agency over the past two decades.

Since 1991, the agency has had about a dozen leaders, including some interim directors and others working permanently in that position. As of October 2010, Parsons was earning \$116,696 at the agency, where he has worked since July 1, 1985. kbramson@providencejournal.com (401) 277-7470 On Twitter @JournalKate

---- INDEX REFERENCES ----

COMPANY: JOHOR CORP; PROVIDENCE JOURNAL CO (THE)

NEWS SUBJECT: (Board of Directors (1BO47); Business Management (1BU42); Corporate Events (1CR05); Corporate Groups & Ownership (1XO09); Executive Personnel Changes (1EX23); HR & Labor Management (1HR87))

REGION: (Americas (1AM92); North America (1NO39); Rhode Island (1RH18); U.S. New England Region (1NE37); USA (1US73))

Language: EN

OTHER INDEXING: (Chafee; Christine Hunsinger; Colin Kane; Curt Schilling; Donald Carcieri; Keith Stokes; William Parsons)

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May 22, 2012

Section: Local

Firms see opportunity to entice some talent

Andy Smith

Two tech companies are making attempts to woo employees from troubled

38 Studios

Two regional technology companies are looking to lure away employees from 38 Studios, Curt Schilling's troubled video-game company.

Turbine Inc., a Massachusetts video-game company, has scheduled a job fair at Hotel Providence, 311 Westminster St., on Tuesday, from 5 to 9 p.m. The downtown hotel is just blocks away from the headquarters of 38 Studios at One Empire Plaza.

Also, Charlie Kroll, CEO of Andera, a Providence company that creates software to allow banking customers to open their accounts online, sent a message on the social media website Twitter to 38 Studios employees: "Andera is hiring and we'd love to talk to you."

Kroll declined to say in an interview Monday how many 38 Studios employees have contacted Andera.

"It's natural to expect that employees who are not getting paid would be looking around," he said.

EDC officials said 38 Studios executives advised the state last week the company would not be able to make payroll.

EDC spokeswoman Judy Chong said Monday morning she did not know whether 38 Studios employees are be-

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ing paid.

At noon Monday, employees were still coming in and out of 38 Studios headquarters in downtown Providence. No one questioned would comment about the company's financial situation or whether they are being paid.

In technology centers such as Silicon Valley, Kroll said, companies are constantly trying to hire each other's employees.

Kroll said he directed his tweet to 38 Studios employees for two reasons.

One is that 38 Studios has talented employees.

The other is about perception: "We want them to know there are legitimate technology employers in Rhode Island that are not on the front pages every day. Many of them might not be aware of that, because they don't live in Providence," he said.

Kroll said Andera has six openings.

Adam Mersky, spokesman for Turbine, was unavailable for comment Monday.

"We're hiring! See below for details about our latest event in Providence, RI," said a notice on the company's Facebook page.

"We invite and encourage members of the community to learn how they can become part of the team that has created some of the world's most popular and award-winning online games, including "The Lord of the Rings Online," "Dungeons & Dragons Online" and "Asheron's Call" and help us define the next generation of online entertainment. We currently have over 50 openings in our Needham, MA studio."

Turbine, owned by Warner Brothers Home Entertainment, has headquarters in Needham. Turbine has about 450 full-time employees.

As of Jan. 31, the Rhode Island Economic Development Corporation certified 251 employees were at 38 Studios. Since then, EDC spokeswoman Chong said, she has been told the company has 290 employees in the state. asmith@providencejournal.com (401) 277- 7485

--- INDEX REFERENCES ---

COMPANY: 10TACLE STUDIOS AG; ANDERA INC; FACEBOOK INC; NEEDHAM BANK; TURBINE INC; TWITTER INC; TURBINE INC; RHODE ISLAND PORT AUTHORITY AND ECONOMIC DEVELOPMENT CORP

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INDUSTRY: (Energy Industry Environmental Issues (1EN22); Environmental Solutions (1EN90); Internet (1IN27); Internet Media (1IN67); Online Social Media (1ON38); Renewable Energy Sources (1RE65))

REGION: (Americas (1AM92); North America (1NO39); Rhode Island (1RH18); U.S. New England Region (1NE37); USA (1US73))

Language: EN

OTHER INDEXING: (RHODE ISLAND ECONOMIC DEVELOPMENT CORP) (Adam Mersky; Charlie Kroll; Curt Schilling; Judy Chong)

COMPANY TERMS: TURBINE INC

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May 22, 2012

Section: Local

Tax credit questions ; 38 Studios Finances at issue

Katherine Gregg

At issue is whether 38 Studios' state-guaranteed loans qualify the company to receive \$8.4 million in motion-picture film credit

PROVIDENCE -- The sale of state tax credits to raise upward of \$8.4 million in fresh capital has emerged as a key piece in retired Red Sox pitcher Curt Schilling's financial rescue plan for his struggling video-game company.

The way it works: the state offers tax credits equal to 25 percent of the "qualified expenses" of a movie, TV show or video game produced in Rhode Island that the producer can then sell to one of the small cadre of brokers who buy them at a discount and then resell them, at a profit, to people and businesses with Rhode Island income-tax liabilities.

Now that 38 Studios has paid the state an overdue \$1.1-million fee on its \$75 million loan guarantee, the company is out of default and once again eligible, if the state film office, tax division and economic-development agency certify it has met the tax-credit requirements.

Before that can happen, however, state officials will have to decide whether Schilling can use the tens of millions of state-guaranteed loan dollars his company received and spent to produce its first big video game to qualify for these state tax credits, a financial loop-de-loop that Governor Chafee is seeking to ban, but may not be able to stop this time around.

And there are many more questions.

Last December, 38 Studios applied for \$2.1 million in state tax credits. Late last week, it applied for another

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\$6.27 million in tax credits for amounts spent to produce its newly released "Kingdoms of Amalur: Reckoning." The company's request now totals \$8.4 million for 2011 alone. (The status of an earlier \$12-million request for 2012 is unclear.)

At a press conference last week, Chafee proposed legislation to prohibit any "motion picture production company" -- which under state law can include a video-game producer such as 38 Studios -- "from using state funds, state loans or state guarantee loans to qualify for the motion picture production tax credit."

Asked why, his spokeswoman Christine Hunsinger said: "The governor believes that companies should not be eligible for state tax credits on state loans or guarantees."

In an interview last week, the head of the state film office, Steven Feinberg, said he did not believe this was allowed now. But state Tax Administrator David Sullivan says there is no prohibition.

"Under current law, there is nothing to prohibit anyone from using state-backed loan proceeds toward the motion picture film credit. The governor's proposed legislation would not allow this in the future," but "under the current statute I don't believe the state could simply say 'no' to using state-backed loan proceeds toward credits," he said.

Other hurdles remain, however, including the terms of the \$75- million loan-guarantee agreement between 38 Studios and the state's Economic Development Corporation.

Before the company could even apply for these motion picture production tax credits, the agreement requires it to spend all of the state-guaranteed loan money it received. The company was given \$49.5 million. The balance of the \$75 million went into reserve funds. The last \$1,581,832 was sent to the company on Nov. 2, 2011.

The EDC hired the accounting firm, Braver PC, to verify how much the company had spent. "On May 14, 2012, Braver PC concluded that, based on a review of the records provided by 38 Studios, the bond proceeds have been fully expended as of Dec. 31, 2011," according to EDC spokeswoman Judy Chong.

Another requirement raises questions about how much money went into 38 Studios, aside from the state-guaranteed loan.

To qualify for the tax credits, 38 Studios would have to prove it had raised "additional capital, independent of the proceeds of the 2010 bonds" in an amount sufficient to cover the production costs on which the company based its tax-credit application, and then demonstrate that "independent capital was expended on the state certified production cost(s)."

Chong said: "The receipt of additional capital must be verified by an audit by EDC's auditor, and 38 Studios would have to demonstrate that the additional capital was expended on 'state certified production cost(s).'"

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How much money did Schilling personally invest or raise? There was no response on Monday from 38 Studios. But the loan agreement requires 38 Studios to meet only one of these prerequisites for a tax credit, not all of them, and by spending all of its state- guaranteed loan money it may already have done so.

Another potential complication: though the company has now paid the overdue \$1.1 million to the state, Feinberg said the default put 38 Studios at the end of the line.

Feinberg said there is no competition for the \$8.4 million in tax credits 38 Studios is seeking for 2011. Only \$2.872 million has been pledged to other productions for that year, and there is no one competing for the balance of the \$15 million in film tax credits, available in any one year. But it is an issue for 38 Studios in 2012, when there is "definitely substantially less" still available, he said.

Last month, Feinberg took what could have been the next-to-last step in issuing a final credit certificate to 38 Studios for the initial \$2.1 million in tax credits it sought.

On April 26, he sent the state's economic development director, Keith Stokes, who has since resigned, a letter seeking confirmation that 38 Studios had met all requirements in its loan-guarantee agreement with the EDC "and is now eligible to access the tax credit program."

"According to 38 Studios and my understanding, [the company] could not access the taxpayer program based on the funds that were guaranteed by the state. However, [they] state they are not using funds that are guaranteed by the state. These are new, additional funds," he wrote.

"I just want a written confirmation from the EDC that this information is accurate and that the EDC agrees that 38 Studios has met their required conditions and can now access this program," Feinberg wrote. Feinberg said he got no response until May 7, when the governor's office sent him a letter from the EDC saying that 38 Studios was in default, "and not to reserve or award any tax credits until the default is cleared."

One of the rules he quoted says: "A motion-picture production company shall not mean or include ... any company owned, affiliated or controlled, in whole or in part, by any company or person which is default (1) on taxes owed to the state or (2) on a loan made by the state or (3) a loan guaranteed by the state."

Another says: "If a production falls out of good-stand status, the production will lose its place in the queue and shall be moved to the end of the queue."

In an interview over the weekend, Chafee said he was "not receptive" to giving 38 Studios the tax credits it seeks -- "not if I have any say." But he acknowledged, he may not have much say. With reports from Mike Stan- ton

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Curt Schilling walks through a gauntlet of reporters after meeting with the Economic Development Corporation board of directors Monday night to discuss his company, 38 Studios. The Providence Journal / Kris Craig

Governor Chafee, right, introduces EDC deputy director William Parsons at the start of Monday's meeting. The Providence Journal / Kris Craig kgregg@providencejournal.com (401) 277-7078

---- INDEX REFERENCES ----

COMPANY: JOHOR CORP

NEWS SUBJECT: (Local Taxing Authorities (1LO66); Taxation (1TA10))

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May 22, 2012

Section: Local

Schilling, board mum on status of video-game firm

Kate Bramson

Neither party offers clue to extent of company's troubles

PROVIDENCE -- Governor Chafee ended a three-hour meeting of the Rhode Island Economic Development Corporation Monday night with no resolution of the financial troubles of 38 Studios, the video-game company owned by Curt Schilling that was backed by a \$75-million state loan guarantee.

"Nothing's changed," Chafee said. "... It would be great if there was some deep pocket investment" that would put money into 38 Studios.

Schilling, the former Boston Red Sox pitcher, attended the meeting and spent about 50 minutes with Chafee and the EDC's board of directors, who met in executive session. It was the second meeting in five days.

When he emerged, Schilling told about two dozen reporters who gathered outside the meeting room: "We're not asking the taxpayers for more money."

"There is so much misinformation out there that I cannot begin to clear it up with a sound bite," he said.

He gave no further clarification, answered no questions, and left quickly in a blue Mercedes.

When Chafee arrived for the meeting, he said, "Ultimately, we want this to succeed. ... We're in it for tens of millions of dollars -- we the taxpayer. So obviously, we want this to succeed. That's our goal."

Schilling's company, 38 Studios, was lured to Providence from Maynard, Mass., with a \$75-million loan guar-

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antee approved by the EDC board in 2010 under the administration of former Gov. Donald L. Carcieri. So far, interest payments on the bonds have been made from a reserve fund set up from the bond proceeds.

But starting next May 1, and continuing for eight years, 38 Studios is responsible for paying back the interest and principal on the bonds.

If 38 Studios does not make the payments, Rhode Island's taxpayers could be responsible for up to \$102 million in interest and principal payments to the bondholders.

The company initially missed a separate \$1.1 million guarantee fee payment to the state on May 1, setting off alarms at the State House and across Rhode Island that the company was having financial problems. The company made the payment last Friday.

Judy Chong, an EDC spokeswoman, said last week the company missed its payroll. She said Monday, "I have not received information they have remedied that situation."

38 Studios certified to the state on Jan. 31 that it had 251 employees. Chong said Monday the company has since told EDC it has about 290 workers in Rhode Island.

Asked after the meeting whether the employees had been paid, Chafee said, "I believe it was a mix of who made payroll and how many layoffs."

He declined to clarify, saying, "We're sticking to the confidentiality parameters" of the loan agreement.

The EDC board took no action during the meeting.

EDC legal counsel David M. Gilden read a statement: "...The board also received information regarding the structure of the bond transaction and received a report from our auditor, Braver PC."

Last Friday, Chafee said the crux of the company's financial problems appears to be that 38 Studios has been unable to find outside investors.

He said the company's "excuse" for its financial problems is "no private capital has materialized."

According to the agreement with the EDC, 38 Studios received various payments from the \$75-million bond proceeds for meeting certain targets. They included signing a lease, certifying that the company employed a certain number of people with an annual wage not less than \$67,500, and entering into a distribution agreement to sell the second game it is developing.

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That game, code-named Copernicus, is a multiplayer online game that Schilling's company is developing with the money he received from Rhode Island. A single-player game called "Kingdoms of Amalur: Reckoning" was released earlier this year and reportedly had decent, but not overwhelming, sales.

In all, 38 Studios has received \$47.4 million in loan money, which it could use for work on game development. That's a bit less than the \$49.5 million that the EDC reported last week had gone to 38 Studios.

The difference between those amounts is a \$2.1-million payment that 38 Studios had to put into an account with Citizens Bank as collateral in case it misses lease payments on its headquarters in Providence, EDC records show. kbramson@providencejournal.com (401) 277-7470

--- INDEX REFERENCES ---

COMPANY: EDUCATIONAL DEVELOPMENT CORP; RHODE ISLAND PORT AUTHORITY AND ECONOMIC DEVELOPMENT CORP

NEWS SUBJECT: (Economic Development (1EC65); Economic Development Agencies (1EC15); Economics & Trade (1EC26))

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May 22, 2012

BRIEF: Schilling leaves after meeting with EDC
Kate Bramson
The Providence Journal, R.I.

May 22--PROVIDENCE, R.I. -- Curt Schilling brushed past about about 20 reporters waiting to question him Monday about the viability of his struggling video-game company, 38 Studios.

"There is so much misinformation out there, I can't clear it up in a sound bite," he said. "We're not asking the taxpayers for more money."

Schilling had earlier met with board members of the Economic Development Corporation.

Governor Chafee and other EDC board members were still meeting behind closed doors 8 p.m., more than 2 1/2 hours after starting their executive session.

Earlier versions of this report were published at 5:03, 5:40 and 7:15 p.m.

More news on 38 Studios

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INDUSTRY: (Application Software (1AP32); Consumer Electronics (1CO61); Consumer Products & Services (1CO62); Consumer Video Products (1CO02); Electronics (1EL16); Games Software (1GA28); Home, Personal & Consumer Software (1HO01); I.T. (1IT96); I.T. Trade Publications (1IT45); I.T. in Media & Publishing (1IT02); Newspapers (1NE17); PC, Video & Online Games (1PC44); Publishing (1PU26); Software (1SO30); Software Products (1SO56); Traditional Media (1TR30))

REGION: (Americas (1AM92); North America (1NO39); U.S. New England Region (1NE37); USA (1US73))

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May 20, 2012

Section: Local

How did state jump into the game business? ; 38 studios

Mike Stanton

What sounded like a way to bring good jobs to the state has turned into an uncertain wager

Lincoln Chafee says he first learned Rhode Island's \$75-million marriage to 38 Studios was on the rocks when he was summoned to the gaming studio's downtown Providence headquarters in April.

The governor and Rhode Island House Speaker Gordon D. Fox sat across from 38 Studio's leader, ex-baseball star Curt Schilling, and learned that "the situation wasn't good."

"They were tapped out," says Chafee. "They needed further help from the state. We came out of there stunned."

Then, at last Wednesday's closed board meeting of the Rhode Island Economic Development Corporation, Schilling and his 38 Studios executives pressed for an immediate vote.

"They said they needed some sort of help from the state that day or they would have to close their doors," Chafee said in an interview Saturday with The Providence Journal.

Chafee said 38 Studios wanted to avoid having to pay a \$1.12- million fee it had missed on May 1, at least for now, and also wanted the state to expedite the approval of \$14 million in Rhode Island film tax credits. The tax credits, which are sold at a discount, would provide a cash infusion to buy time for the studio to secure private venture capital.

Chafee objected to an immediate vote, skeptical about committing more state funds to the controversial, high-profile venture. Fortunately, he says, a private business lawyer at the meeting who was advising the governor, Jonathan N. Savage, warned against a vote that day, laying out some other possible scenarios and "changing the

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direction of the meeting."

Later in the week, after the EDC board declined to act, the state confirmed that 38 Studios had not been able to pay its 251 Providence workers that week.

Still, Chafee says, he hasn't given up on 38 Studios. Opposed to the deal as a candidate in 2010, he says that once it was done and he inherited it in 2011, he became 38 Studios' biggest cheerleader.

The vision: to have a high-profile company in the lucrative world of video gaming in Rhode Island, an anchor to Providence's Knowledge District that would create 450 well-paying jobs and lure other coveted high-tech jobs to lift a sagging economy.

The danger: to bet a sizeable chunk of taxpayer money on an unproven player in the "highly speculative and inherently risky" business of video gaming, as the disclosure documents issued for the sale of the \$75 million in state bonds warns.

With the governor reluctant to "throw good money after bad," and opposed to the tax credits, though he acknowledges he may not be able to stop them, he says there are other possible paths to rescue 38 Studios and protect Rhode Island taxpayers.

One possibility: entice private venture capitalists by offering them first position, ahead of the state, on loan repayments from 38 Studios. That would allow a private investor to take an ownership interest in 38 Studios, which Chafee says would be necessary to attract private capital. No additional taxpayer money would be required, and it would give 38 Studios a chance to survive.

The risk: that 38 Studios still fails, and then the state loses the rights it now possesses to the company's intellectual property, including its massive fantasy video game under development, code-named Project Copernicus.

"We're still evaluating that, and there are other options," says Chafee, who did not elaborate given the sensitivity of the situation.

A representative of 38 Studios declined to comment Saturday, given the delicate nature of the company's ongoing efforts to secure private financing.

It was on the watch of a conservative, small-government Republican, Donald Carcieri, that the deal now derided as a big-government giveaway took shape.

Carcieri, a businessman-turned-politician, was in the last of his stormy eight years as governor in 2010 when he found himself at Schilling's mansion in Massachusetts for a fundraiser in support of a World War II document-

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ary.

Schilling, who shares Carcieri's conservative values and has been a champion of military veterans, was the former ace pitcher for the Boston Red Sox, a New England folk hero who in 2004 helped the team win its first World Series in 86 years while pitching on an injured ankle that led to the famed bloody sock.

An avid video gamer, **Schilling** had retired in 2009, after playing on a second World Series championship team in 2007, and formed his own video-game company in Massachusetts, named **38 Studios** for his Red Sox uniform number.

At the fundraiser at **Schilling's** house, on March 6, 2010, Carcieri found himself chatting with the ex-baseball star about his video-game company.

Despite his self-proclaimed image as the "jobs" governor, Carcieri led a state with one of the nation's highest unemployment rates, and was seeking to burnish his legacy as he left the State House. **Schilling**, meanwhile, was seeking financing to build his nascent video-gaming company.

"I said, 'You should be right there in Providence,' " recalled Carcieri, in a 2010 interview. "I wasn't thinking anything would come of it."

One week later, the new executive director of Rhode Island's Economic Development Corporation, Keith Stokes, said that both Carcieri and Fox, the House speaker, told him in separate conversations that he should meet **Schilling**:

On March 16, Stokes and Fox met **Schilling** and **38 Studios** director Tom Zaccagnino at the downtown Providence law office of Michael Corso, a friend and campaign supporter of Fox's who was working with **38 Studios**, sold tax credits, and had helped rewrite Rhode Island's historic-preservation tax credit law.

Six days later, Stokes met again with **Schilling** and Zaccagnino, this time with EDC officials. **38 Studios** said it was looking for about \$75 million, so Stokes said he went to legislative leaders and suggested they add \$75 million to a planned \$50-million financial credit program for companies that create "soft assets" -- such as computer software and other intellectual property.

On April 6 -- one month after **Schilling** and Carcieri first met -- House Finance Chairman Steven Costantino inserted the \$125-million Job Creation Guarantee Program into the supplemental budget.

Meanwhile, analysts hired by the EDC rushed to assess the viability of **38 Studios**, and warned of the high risks of an unproven company in a competitive market. **38 Studios'** attempts to develop a massively multiplayer game, one analyst wrote, "is analogous to an 'all in' hand in poker."

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Rank-and-file Rhode Island lawmakers were unaware that 38 Studios was in the running for \$75 million when they took up the Job Creation Guarantee Program on the House floor on April 16.

Costantino says he knew of 38 Studios' interest, but neither he nor Fox, nor Stokes, when he testified for the bill, mentioned it.

"Knowing a company is interested is a lot different than knowing a company was going to get [funding]," Costantino explained later in 2010.

But Robert Watson, the House minority leader, and others objected.

"Scandal finds money," Watson warned his colleagues during the floor debate. "Scandal finds a pool of \$125 million with sketchy strings attached. Scandal will find this bill someday."

Costantino reassured colleagues that this was merely "to guarantee debt ... this is not a loan."

"The debt-service payments," he said, "will be paid by revenues from financed projects." But Republican Rep. Laurence Ehrhardt of North Kingstown, while supportive of the concept, voiced concern that there was insufficient scrutiny and "no limitation whatsoever" on how much of the \$125 million could go to any one company. He fretted that a taxpayer guarantee "could turn into a need for the state to come up with the cash should the guarantees be made for unsuccessful ventures."

Costantino countered that defaults were rare. The EDC, he said, "has been very, very successful in reducing the risk to the state.... They go through a very intense risk assessment."

House Majority Leader Nicholas Mattiello chimed in, telling lawmakers: "This is a great economic development tool.... This is job creation, economic development. It's the beginning."

The loan-guarantee program won House approval that day, by a vote of 66 to 6. The legislation would also sail through the Senate, where Finance chairman Daniel DaPonte said he, too, was unaware that Schilling was close to a \$75-million deal with the state, and expressed surprise when he heard the amount.

"Now," Ehrhardt had warned his colleagues, "we are opening Pandora's box."

Three days after final legislative approval, the EDC's board of directors voted preliminary approval of a \$75-million loan guarantee, supported by issuing bonds to be paid from the profits of 38 Studios. On July 26, the board granted final approval, by a vote of 8 to 1. The only no vote came from Karl Wadensten, president of the manufacturing company Vibco.

The deal provoked a public outcry regarding its size, risk and haste, as well as 38 Studios' unproven track record and accusations that Carcieri had swooned for a celebrity ex-ballplayer.

Chafee, who was running for governor, blasted the deal, threatened to sue the EDC board, and was rebuffed when he asked to speak at a board meeting. Carcieri, who chaired the meeting, dismissed the criticism as "political posturing."

Schilling told a Boston radio sports show that he would build the largest gaming studio on the East Coast in Providence, and had invested more than \$30 million of his own money.

Stokes trumpeted the deal, saying it would bring 450 high-paying jobs and millions of dollars in income-tax revenue to Rhode Island while serving as a magnet to attract other high-tech firms to Rhode Island.

Responding to criticism from Democratic Rep. Charlene Lima of Cranston, Stokes wrote her that the EDC has gone to "great lengths to safeguard Rhode Island taxpayers." 38 Studios would receive only about \$51 million of the bond proceeds; another \$20 million or so would be held in reserve by the state to cover the first three years of debt payments.

If the company failed to reach its goals, Stokes said, it would be cut off and also penalized \$7,500 annually for each of the 450 "high-wage, high-skilled jobs it falls short of creating."

Stokes said the deal had been carefully vetted by the EDC board, which included Rhode Island's "top business, labor, higher education and civic leaders," and that a "lengthy and comprehensive due diligence" had concluded that 38 Studios was "a sound company in a high-growth interactive entertainment market projected to reach \$124 billion by 2013." In addition to annual fees from 38 Studios and income-tax revenue from its workers, Stokes said the state stood to reap \$15.25 million to \$18.8 million from the company "based on a percentage of its profits."

In the "unlikely event" of failure, Stokes reassured Lima, the EDC had first rights to all of 38 Studio's assets, including intellectual property and rights to any games it was producing.

"This ensures that under no circumstances would taxpayers be asked to repay \$75 million."

The bonds were sold to private investors, in minimum increments of \$100,000, in the fall of 2010.

Over the next 12 months, as 38 Studios moved into downtown Providence and hired 250 employees; the state disbursed \$49 million to the company.

Early this year, 38 Studios released a role-playing fantasy game that had been developed at its Maryland studio,

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"Kingdoms of Amalur: Reckoning," to widespread publicity and generally favorable reviews, many of which noted **Schilling's** role. Given the intricacies and secrecy of distribution agreements and rights fees, it's hard to know how much profit 38 Studios reaped from the rollout as it geared up for its much more ambitious Copernicus game.

Chafee says 38 Studios' executives spoke optimistically at last week's EDC board meeting of how Kingdoms of Amalur has sold, "but I think differently."

"The bottom line, after all the dust has settled, is that Kingdoms didn't perform," said Chafee, adding that he has made his own inquiries in recent weeks.

Ironically, given the controversy over the size of the state's deal with 38 Studios, executives said they were also hamstrung by the fact that they received only \$49 million to build the company, not the full \$75 million to put toward the massive costs of game development. In recent weeks, 38 Studios representatives have pressed that case to state officials, according to the EDC's lawyer, David M. Gilden.

Chafee, who was relying on the EDC to monitor 38 Studios, thought that "things were going well" until his alarming meeting in April with **Schilling** at 38 Studios. Then, when 38 Studios missed its May 1 payment and the matter went public the following week, the spotlight was focused not only on the deal, but on the EDC's oversight.

The EDC and 38 Studios signed a "project monitoring agreement" that calls for an independent third party to monitor and report on "the development schedule and budget for Copernicus" to assure that it remains "on time and on budget," according to the private placement memorandum to potential bond buyers on Oct. 22, 2010.

IBM was chosen as the third-party monitor in September 2010 but has declined to provide The Journal with any details of the agreement. When the newspaper asked for copies of IBM's written reports, the EDC said there are no written reports, just verbal updates. Gilden, the EDC's lawyer, says that the agreement contains confidential information about Copernicus, which is closely guarded information in the competitive gaming business.

Gilden says IBM was only hired to monitor "the technical side" of the game's development. Gilden, who was hired in 2011 and wasn't at the EDC when the original agreement was struck, said he didn't know why the private placement memo mentioned financial oversight.

Meanwhile, it was apparent in the summer of 2011, at which point 38 Studios had received \$44 million in state bond proceeds, that the company would require more cash. On June 24, 2011, 38 Studios' auditor, PricewaterhouseCoopers, issued an opinion concluding that the company "will require additional financing to fund future operations ... raising substantial doubt about the company's ability to continue as a going concern."

Gilden says he can't comment on that audit, or what the EDC may have done to encourage or monitor 38 Studi-

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os' attempts to obtain additional private funding.

In late November 2011, Gilden says 38 Studios talked to him and Stokes about a plan to obtain private financing, which the state would have to be informed of. Then, on Dec. 3, he says, 38 Studios reported back that they were "all set for the time being and didn't need to talk to us anymore."

Citing confidentiality, Gilden declined to say if 38 Studios had, in fact, obtained the private financing.

With Stokes' resignation last week, Chafee has vowed to review the beleaguered EDC's operations in choosing a successor. One question for the governor's team: what did the EDC know and do regarding 38 Studios?

The EDC's outside auditor, Braverman, has been hired by the EDC to audit the books of 38 Studios, to determine how the \$49 million was spent and whether Schilling used state bond money to repay any of his own personal investment, which would be a violation of Rhode Island's agreement. Schilling, who has remained mum, wrote on his Facebook page last Thursday that he didn't.

Chafee, who as governor has had to grapple with financial problems in Central Falls, East Providence, Woonsocket and West Warwick, now finds himself dealing with the fate of the mythical realm of Amalur.

On Friday afternoon, hours after Chafee revealed that Project Copernicus' projected release date is June 2013, 38 Studios posted a trailer online previewing the elaborate settings of the game, which is based on the work of two of the company's executives, or "visionaries" -- famed comic book artist Todd McFarlane and bestselling fantasy novelist R.A. Salvatore. The game involves a fantasy world where the universe is under siege and the heroes must choose between saving it or destroying it.

Asked at a news conference Friday if he could see the state making a deal like this again, Chafee replied, "Never. Never. Not on my watch."

With reports from State House reporter Katherine Gregg

The risk: that 38 Studios still fails, and then the state loses the rights it now possesses to the company's intellectual property.

In this image released by Electronic Arts, 38 Studios' Todd MacFarlane, right, stands on the table, with Ken Rolston, R.A. Salvatore and Curt Schilling, left, during a panel discussion to announce "Kingdoms of Amalur: Reckoning" in San Diego in 2010. AP / Sandy Huffaker

House Majority Leader Nicholas Mattiello, left, and House Minority Leader Robert Watson, right, (shown in April 2011) differed on the loan program. The Providence Journal / Connie Grosch

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In 2010, Curt Schilling listens as the Economic Development Corporation members debate a loan guarantee for his video-game company. The Providence Journal / Bob Thayer mstanton@providencejournal.com (401) 277-7724

---- INDEX REFERENCES ----

COMPANY: 10TACLE STUDIOS AG; BRAVERMAN AND ASSOCIATES; EDUCATIONAL DEVELOPMENT CORP; ELECTRONIC ARTS INC; FACEBOOK INC; INTERNATIONAL BUSINESS MACHINES CORP; JOHOR CORP; PRICEWATERHOUSECOOPERS LLP; PROVIDENCE RESOURCES PLC; VIBCO INC; PROVIDENCE JOURNAL CO; RHODE ISLAND PORT AUTHORITY AND ECONOMIC DEVELOPMENT CORP

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May 20, 2012

Section: Local

Kingdom of Hypocrisy: Reckoning

Former Red Sox pitcher Curt **Schilling** appeared on Fox News in March, fielding softball questions from conservative talk show host Sean Hannity.

"Tell us what you did," Hannity said in asking about **Schilling's** video-game company, 38 Studios, "because it's amazing."

What's amazing is **Schilling's** unabashed, unmitigated, unbelievable hypocrisy.

In one breath, Big Schill was pitching his small-government patter: "Every dollar I can't commit to my company that's paid in taxes is paying a government that I believe is too big and doing way too much that I don't want done."

In the next breath, he was singing the praises of the Rhode Island politicians who provided 38 Studios with a \$75-million loan guarantee, which could put taxpayers on the hook for as much as \$102 million over the next eight years.

"I've got my own skin in the game, to be sure," **Schilling** told Hannity, without mentioning the skin that Rhode Island taxpayers have in the game. "I'm not looking, never have been, for handouts."

Yet there was **Schilling** on Wednesday, pleading with Governor Chafee and the state Economic Development Corporation for even more government assistance for his risky video-game venture.

After the meeting, **Schilling** ducked into the back seat of a Mercedes without shedding any light on the financial condition of 38 Studios, which defaulted on its agreement with the state by missing a \$1.1-million payment due May 1. The company finally made the payment on Friday.

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Schilling proved far more talkative when Hannity invited him to criticize President Obama. "The president, every single day, it's class warfare, class warfare," Hannity said. "What do you think of the president when he uses that rhetoric?"

"It's uncomfortable," **Schilling** replied. "Someone that has spent five years in the private sector with my own capital, my own skin in the game, I understand at a much deeper, fundamental level how our economy works and doesn't work."

In 2010, Providence Journal reporters Paul Grimaldi, Andy Smith and Kate Bramson explained how the 38 Studios deal worked: It all began when former Gov. Donald L. Carcieri, a Republican former CEO, attended a fundraiser (for a World War II documentary) at **Schilling's** turreted, 20-room mansion in Medfield, Mass.

After a little chit-chat, Carcieri's top aides, Democratic legislative leaders and private parties began crafting a transaction that lured the company, and the promise of 450 jobs, away from Massachusetts officials, who were savvy enough to avoid matching the generosity of Rhode Island's elected leaders.

Flash forward to Wednesday's emergency meeting of the EDC, when the public and media had to wait outside closed doors as **Schilling** sought more public assistance.

House Speaker Gordon D. Fox, D-Providence, a key supporter of the loan guarantee, has said that while the company is not asking the legislature for money, there has been "some talk of tax credits being part of the bridge financing."

But the question is: Where is that bridge leading us, and is it the bridge to nowhere?

It sure seemed that way on Thursday when a 38 Studios representative hand-delivered a check to the EDC and the check was promptly returned because there were insufficient funds to cover the payment. (Who dropped off that check -- John M. Cicilline?) On Friday, 38 Studios managed to make the \$1.1-million payment without bouncing a check, and Chafee said the company has applied for millions of dollars of film tax credits.

The conservative mantra is that government should not be in the business of picking winners and losers in the marketplace. The hypocrisy is that Carcieri and **Schilling** were only too eager to make 38 Studios the winner of a \$75-million loan guarantee, which soaked up a huge chunk of the state's new \$125-million Job Creation Guarantee Program.

The conservative mantra is that government needs to end the culture of dependency. The hypocrisy is that the millionaire athlete and the CEO governor favored privatizing the profit while socializing the risk. And then **Schilling** sought even more help from Chafee -- despite the fact that as a candidate Chafee blasted the loan guarantee and took a cheap shot by questioning whether **Schilling's** famous bloody sock was really bloody.

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The conservative mantra is, to quote **Schilling**, that government is "too big and doing way too much." The hypocrisy is that he joined a conservative governor and liberal legislators in pushing the state so far beyond the basics of roads, bridges and schools that taxpayers now have millions of dollars riding on the success of a video game featuring gnomes, elves and something called a Bolgan.

To put this in context, consider all the hoopla surrounding the Race to the Top grant, which brought \$75 million in federal money to the state to improve public schools. The state is now risking an equal amount on **Schilling's** fantasy game.

That reality is downright galling for a guy like Philip L. Anez, a stockholder in a company that was turned down twice by the EDC when it sought a \$1.5-million loan guarantee to open a gourmet steak- sauce company in Smithfield.

Anez said the company was ready to go, with an option to lease a building and pending contracts to make the sauce in Connecticut and distribute it from Smithfield. Plans called for creating 20 jobs and eventually making the sauce in Smithfield while hiring 100 people. But the EDC said no, and now the company is looking at Massachusetts or Florida.

Of course, Anez never hobnobbed with a governor in a mansion. But he did spend a year and a half working on a business plan along with Urban Ventures, a nonprofit that helps small businesses in Rhode Island. Now, he believes the EDC turned down his company, and dozens of others, in part because 38 Studios ate up so much of the money available for loan guarantees.

"Name recognition seems to mean more than general entrepreneurship in the state," Anez said. "That's exactly what it was: star power. Rhode Island wanted to be associated with someone like Curt **Schilling**."

But Anez, who lives in Uxbridge, Mass., said it's been evident to many that **Schilling's** venture could very well fail. "I don't blame **Schilling**. I blame the EDC," he said. "Everybody and their brother knew this company was not going to be a success, and they only got the money because of political pressure."

No such doubts were raised when **Schilling** appeared on Fox News. "Tell us what you did," Hannity purred, "because it's amazing."

What **Schilling** did was amazing, all right. And the amazing thing is that at a time when our cities are reeling from state aid cuts, when Central Falls is bankrupt and Providence is closing schools, the small-government All-Stars jeopardized upward of \$100 million in taxpayer money on a video game called "Kingdoms of Amalur: Reckoning." If that money is lost, there should be a serious reckoning, indeed.

Curt **Schilling**, right, passes former Gov. Donald L. Carcieri on **Schilling's** way to the podium after the Rhode Island Economic Development Corporation approved the \$75-million loan guarantee in 2010. The Providence

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Journal / Bob Thayer

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---- INDEX REFERENCES ----

COMPANY: JOHOR CORP; FOX NEWS; RHODE ISLAND PORT AUTHORITY AND ECONOMIC DEVELOPMENT CORP

NEWS SUBJECT: (Campaigns & Elections (1CA25); Philanthropy (1PH09); Social Issues (1SO05); Taxation (1TA10); U.S. Congressional Campaigns (1US07))

INDUSTRY: (Accounting, Consulting & Legal Services (1AC73); Banking (1BA20); Financial Services (1FI37); Loans (1LO12); Retail Banking Services (1RE38))

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May 20, 2012

How RI plunged into the video game business
Mike Stanton
The Providence Journal, R.I.

May 20--Lincoln Chafee says he first learned Rhode Island's \$75-million marriage to 38 Studios was on the rocks when he was summoned to the gaming studio's downtown Providence headquarters in April.

The governor and Rhode Island House Speaker Gordon D. Fox sat across from 38 Studio's leader, ex-baseball star Curt Schilling, and learned that "the situation wasn't good."

"They were tapped out," says Chafee. "They needed further help from the state. We came out of there stunned."

Then, at last Wednesday's closed board meeting of the Rhode Island Economic Development Corporation, Schilling and his 38 Studios executives pressed for an immediate vote.

"They said they needed some sort of help from the state that day or they would have to close their doors," Chafee said in an interview Saturday with The Providence Journal.

Chafee said 38 Studios wanted to avoid having to pay a \$1.12-million fee it had missed on May 1, at least for now, and also wanted the state to expedite the approval of \$14 million in Rhode Island film tax credits. The tax credits, which are sold at a discount, would provide a cash infusion to buy time for the studio to secure private venture capital.

Chafee objected to an immediate vote, skeptical about committing more state funds to the controversial, high-profile venture. Fortunately, he says, a private business lawyer at the meeting who was advising the governor, Jonathan N. Savage, warned against a vote that day, laying out some other possible scenarios and "changing the direction of the meeting."

Later in the week, after the EDC board declined to act, the state confirmed that 38 Studios had not been able to pay its 251 Providence workers that week.

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Still, Chafee says, he hasn't given up on 38 Studios.

With the governor reluctant to "throw good money after bad," and opposed to the tax credits, though he acknowledges he may not be able to stop them, he says there are other possible paths to rescue 38 Studios and protect Rhode Island taxpayers.

One possibility: entice private venture capitalists by offering them first position, ahead of the state, on loan repayments from 38 Studios. That would allow a private investor to take an ownership interest in 38 Studios, which Chafee says would be necessary to attract private capital. No additional taxpayer money would be required, and it would give 38 Studios a chance to survive.

The risk: that 38 Studios still fails, and then the state loses the rights it now possesses to the company's intellectual property, including its massive fantasy video game under development, code-named Project Copernicus.

"We're still evaluating that, and there are other options," says Chafee, who did not elaborate given the sensitivity of the situation.

A representative of 38 Studios declined to comment Saturday, given the delicate nature of the company's ongoing efforts to secure private financing.

More news on 38 Studios

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---- INDEX REFERENCES ----

COMPANY: PROVIDENCE RESOURCES PLC; RHODE ISLAND PORT AUTHORITY AND ECONOMIC DEVELOPMENT CORP

NEWS SUBJECT: (Business Management (1BU42); Corporate Events (1CR05); Corporate Funding (1XO17); Funding Instruments (1FU41); Privatization (1PR92); Taxation (1TA10); Venture Capital (1VE73))

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May 19, 2012

Section: Local

38 Studios

Kate Bramson

Governor says Schilling's video-game company lacks outside investors, as 38 Studios asks for even more in tax credits

PROVIDENCE -- Governor Chafee said Friday that the crux of the financial problems at Curt Schilling's embattled video-game company appears to be that 38 Studios has been unable to find outside investors willing to pump more money into the company.

He said the company's "excuse" for its financial problems is "no private capital has materialized."

Rosemary Booth Gallogly, the state director of revenue, said the company's initial agreement with the state indicated it would need additional equity next year, but the company now needs it sooner.

"This [venture capital] market is very hard to access," she said. Early stage video-game companies "really do present a different kind of risk than other companies."

38 Studios did, however, manage Friday to make its late \$1.1- million payment to the state Economic Development Corporation, after it delivered a check with insufficient funds at 5 p.m. Thursday.

"It's a risky business," Chafee said Friday afternoon during a news conference. "Everybody that's involved in this [video-game] business said so right from the beginning. This is a very, very difficult business to be in. For the experts, this isn't a surprise."

The company wired \$1,025,000 to the EDC and presented a \$100,000 check to the state around noon on Friday, curing 38 Studios' default on its loan-guarantee agreement with the EDC. Missing that May 1 payment is what

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put the former Red Sox pitcher's company into default.

Rhode Island lured the company from Massachusetts with a \$75- million, state-backed loan guarantee in 2010.

Late Thursday, the company alerted the EDC that it had missed its payroll. By late Friday, the governor's office still didn't know whether 38 Studios had paid its employees.

Friday morning, 38 Studios asked the state for permission to quadruple the amount of film-tax credits for last year that the company requested in December -- upping the ante from \$2.1 million to at least \$8.4 million.

If the Rhode Island Film & Television Office grants those credits, 38 Studios could sell them to meet its short-term cash needs.

Schilling's company had already received preliminary approval for the smaller credit, but as state auditors pore over the company's financial records, Chafee said state officials will review everything about that and the new request.

Chafee said he's bound by the law to consider the company's applications.

"I'll do everything under the law to protect the taxpayer and also not break the law," Chafee said.

The company could not have sought the credits while it was in default. But the loan agreement gave the company 30 days to "cure" that default, Chafee spokeswoman Christine Hunsinger said.

"As soon as you clear default, you're eligible to get back in the queue" for film-tax credits, Chafee said.

Chafee also announced Friday a proposal to alter the state's film- tax credit program and to provide more financial oversight of the program.

"We want to go forward and make sure that we tighten the procedures on these motion-picture tax credits," Chafee said.

Any company that goes into default with the state would have to wait a year to get back into the queue for the credits.

The governor wants to move the Film & Television Office out of its current home within the Rhode Island Council on the Arts and into the Rhode Island Division of Taxation.

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The proposal would cap at \$5 million the "motion picture" tax credits that could go to any production, including a video game, though the tax administrator could waive the cap for a full-length feature film or TV series only.

And finally, the proposal says, "A motion-picture production company is prohibited from using state funds, state loans or state guaranteed loans to qualify for the motion picture tax credit."

The company has told the state it has already spent all of the \$49.5 million it received through the \$75-million loan guarantee, Chafee said.

Its monthly costs are somewhere in the range of \$4 million, he said.

And although the company had initially said a new "massive multiplayer online game" would be released later this year, Chafee said Friday he now understands the game will be released in June 2013.

Schilling and other company executives have not returned repeated requests for comments since last week. Schilling, on his Facebook page Thursday night and again Friday, denied reports he used money obtained through the state loan-guarantee program to repay himself for money he invested in the company.

"To all the prayers and well wishes to the team and families at 38, God Bless and thank you!" he wrote. "We will find a way, and the strength, to endure."

By late Friday, he tweeted a YouTube link to a preview of the game in the making.

New details about the company's tax-credit plans also emerged Friday.

In response to an inquiry from The Providence Journal, Blue Cross & Blue Shield of Rhode Island spokeswoman Kim Reingold said an unnamed "broker" tried to convince the insurance company earlier this week to commit to buying 38 Studios tax credits, in an unspecified amount.

State tax administrator David Sullivan said no law prevents a production company from trying to pre-sell credits as a way of raising money to finance a project.

The way it works: The state offers tax credits equal to 25 percent of the "qualified expenses" of a movie, TV show, commercial or video game shot or created in Rhode Island which a producer can use to leverage financing or sell to one of the small cadre of brokers who buy them at a discount and then resell them, at a profit, to people and businesses with Rhode Island income tax liabilities.

"Blue Cross & Blue Shield of Rhode Island was offered the opportunity to purchase tax credits from 38 Studios this past week," Reingold said. "After conducting the necessary due diligence, BCBSRI has decided not to pur-

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sue the purchase of these tax credits."

She would not elaborate on who approached the company, or why the offer was rejected, but said Blue Cross has purchased both film and historic tax credits in the past from other companies "to offset a portion of BCBSRI's state tax liability. By purchasing tax credits at a discounted rate, BCBSRI is able to reduce its administrative expenses, which ultimately benefits its members."

On Friday night, former Gov. Donald L. Carcieri, one of the central brokers of the deal between Schilling and the EDC, gathered with members of his former administration for a reunion at the Cowesett Inn in West Warwick.

Earlier in the day, Chafee had said he has not heard from Carcieri throughout the tumultuous week.

At the inn, a Providence Journal reporter trying to get a comment from Carcieri for the first time was not allowed inside the room where they met. After about a half-hour, a spokesman for Carcieri, Tony Bucci, delivered a message:

Carcieri would not comment.

With reports by Richard Dujardin

The video-game industry is "a risky business." Governor Chafee

Employees of 38 Studios, Curt Schilling's video-game company, arrive for work Friday on Empire Street, Providence. The Providence Journal / Mary Murphy

---- INDEX REFERENCES ----

COMPANY: 38 STUDIOS LLC; BANK SCHILLING AND CO AG; BLUE CROSS AND BLUE SHIELD OF FLORIDA INC; FACEBOOK INC; JOHOR CORP; YOUTUBE LLC; PROVIDENCE JOURNAL CO; BLUE CROSS BLUE SHIELD OF MICHIGAN

NEWS SUBJECT: (Income Taxation (1IC82); Local Taxing Authorities (1LO66); Taxation (1TA10))

INDUSTRY: (Accounting, Consulting & Legal Services (1AC73); Consumer Electronics (1CO61); Consumer Products & Services (1CO62); Consumer Video Products (1CO02); Electronics (1EL16); PC, Video & Online Games (1PC44))

REGION: (Americas (1AM92); North America (1NO39); Rhode Island (1RH18); U.S. New England Region (1NE37); USA (1US73))

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OTHER INDEXING: (Chafee; Christine Hunsinger; Curt Schilling; Donald Carcieri; Kim Reingold; Mary Murphy; Peter Sullivan; Richard Dujardin; Rosemary Booth Gallogly; Tony Bucci)

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May 19, 2012

Section: Sports

For Curt **Schilling** and this circus, here are the clowns

FOR WHAT IT'S WORTH:

- Welcome to another Full Rhode Island, complete with jock- sniffing politicians who couldn't wait to walk Curt **Schilling** before us like some show pony, an apparently Incompetent Development Council, and now a signature failure for a beleaguered state trying to keep from slipping into the economic abyss.

So here we have **Schilling** bouncing a check on Thursday to try to keep his failed 38 Studios afloat.

Could someone please put a tent over this circus?

- I don't know about you, Bunky, but reading about Brian McNamee saying he injected Roger Clemens in the butt is more than I have to know.

- **Schilling** looked better with the ball in his hand, right?

- The time I would like back the most is the time I spent watching television.

- When did watching an NBA game seem like watching Jonestown, all the fans in the same color shirts?

- The Celtics got better when Jermaine O'Neal went out of the lineup.

- Quiz of the Week: Two players won both Rookie of the Year and MVP in the NBA in the same season?
(Answer near the bottom of the column.)

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- Line of the Week comes from Tom Brady, via the Boston Herald, on his turning 35 in August and playing for Bill Belichick: "I've got to be the best guy for him to keep playing me. When I'm not, someone else will play. There's no entitlement with Coach Belichick."

- Line of the Week II comes from longtime column contributor Joe Boots: "The next game Curt Schilling develops will be Grand Theft Rhode Island."

- Very few female singers had a more real style than Donna Summer, the one-time disco diva from Boston who died this week at 63.

- The Orioles in first place? Really?

- The Heat had to be seen to be believed in their Thursday night blowout by the Pacers.

- Salary stories in professional sports bore me to tears.

- Letting old friend Lamar Odom go has hurt the Lakers.

- Student loans are the next big financial crisis.

- You know the times have changed with the news that Mickey Mantle's restaurant on Central Park South in New York is in receivership.

- And there's no truth to the rumor that the City of New York once gave him \$75 million to get started.

- Or that 38 Studios' new corporate logo is a bloody sock.

- Or that A-Rod's RBI numbers go down with each new gal-pal.

- Or that Schilling drilled Keith Stokes with a brush-back pitch that knocked him out of his Rhode Island EDC gig.

- If you like rugby, you'll love "Memoirs of a Rugby-Playing Man: Guts, Glory, and Blood in the World's Greatest Game," by Massachusetts writer Jay Atkinson.

- Kevin Garnett, who turns 36 on Saturday, is playing the best basketball of his Celtics career.

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- Forbes magazine has Jennifer Lopez, Oprah, Justin Bieber, Rihanna and Lady Gaga as the top five celebrities, just in case you want to keep up with these things, Bunky.
 - Memo to **Schilling**: If you're on record not liking big government, why did you take the \$75 million from the state of Rhode Island?
 - What were the odds once upon a time that Belichick would go down in NFL history as a more significant coach than the Tuna?
 - The new Spenser novel, the first one written by Ace Atkins, who is taking over for the late Robert B. Parker, is out and called "Lullaby."
 - Guys in the Witness Protection Program are more visible than Bobby Jenks.
-
- Speaking of \$75 million, the Red Sox and Phillies have four guys combined on the DL this weekend whose salaries total \$75 million: Carl Crawford, John Lackey, Ryan Howard and Chase Utley. And both teams are in last place.
 - Pardon me if I'm jaded, but Kennedy family tragedies became a sad cliché a long time ago.
 - R.I.P. Steve Stanford, a longtime referee and summer league organizer, one of the special people who made Rhode Island basketball work around here.
 - And old friend Richard Paolino, too, a kind and gentle soul, who parlayed being an All-State football player from Barrington in 1963 into four years at Dartmouth, two beautiful kids, and a wonderful life; one of those people who, if you didn't admire, you should look in the mirror.
 - Quiz answer: Wilt Chamberlain in 1960, Wes Unseld in 1969.
 - Memo to **Schilling II**: Bouncing balls in the dirt was one thing; bouncing checks is another.
 - The New York Daily News had Josh Beckett as its "Dweeb of the Week" last week.
 - If there's a better NBA coach than Doc Rivers, he's hiding.
 - One quarter of the baseball season is over and Josh Hamilton is the runaway MVP. - There's no truth to the rumor that if this were the old days in Rhode Island, some guys from the Hill would take baseball bats -- so **Schilling** would understand the cheap symbolism -- and one way or the other they'd get the money back.

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Curt Schilling leaves the meeting of the board of directors of the Economic Development Corporation Wednesday. The Providence Journal / Mary Murphy breynold@providencejournal.com (401) 277-7340

---- INDEX REFERENCES ----

COMPANY: BOSTON HERALD INC; JOHOR CORP; NEW YORK DAILY NEWS

INDUSTRY: (Basketball (1BA75); Celebrities (1CE65); Entertainment (1EN08); Rugby (1RU17); Rugby League (1RU18); Sports (1SP75))

REGION: (Americas (1AM92); Massachusetts (1MA15); New York (1NE72); North America (1NO39); Rhode Island (1RH18); U.S. Mid-Atlantic Region (1MI18); U.S. New England Region (1NE37); USA (1US73))

Language: EN

OTHER INDEXING: (Ace Atkins; Bill Belichick; Bobby Jenks; Brian McNamee; Carl Crawford; Chase Utley; Curt Schilling; Doc Rivers; Donna Summer; Jay Atkinson; Jennifer Lopez; Jermaine O'Neal; Joe Boots; John Lackey; Josh Beckett; Josh Hamilton; Justin Bieber; Keith Stokes; Kevin Garnett; Lady Gaga; Lamar Odom; Mickey Mantle; Richard Paolino; Rihanna; Robert Parker; Roger Clemens; Ryan Howard; Tom Brady; Wes Unseld; Wilt Chamberlain)

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May 18, 2012

Section: Commentary

A game for dunces

As a candidate in 2010, Lincoln Chafee, to his credit, tried to stop Rhode Island from guaranteeing \$75 million in loans to 38 Studios, founded by former Red Sox star Curt Schilling. The ex-pitcher's business of video-game development is very risky, and the guarantees, irresponsibly pushed by Governor Carcieri and the state Economic Development Corporation, were perilous, especially in a state with severe financial problems.

Now, Governor Chafee, again to his credit, says he is working hard on "keeping 38 Studios solvent," given that so much public money is tied up in it. It appears that the company is in great peril and bridge loans and/or tax credits from the state are urgently needed. He has already demanded, and received, the resignation of EDC Executive Director Keith Stokes.

We were among those who expressed great skepticism about this loan guarantee in 2010.

That's because politicians and bureaucrats are terrible at picking winners and losers in the high-tech marketplace. They simply lack the knowledge. And setting up such a system of giving favored people enormous loan guarantees -- money we can ill afford to gamble away -- merely perpetuates the "let's make a deal" reputation of Rhode Island, where politics often seem to carry greater weight than rational business decision-making.

Supporting infrastructure -- e.g., good schools, advanced telecommunications, marine ports, airports, highways, railroads -- to generate across-the-board economic activity is one thing. Backing individual companies is another.

Whatever happens to 38 Studios, such crony capitalism should be stopped.

Rhode Island could stimulate job creation much better by lowering business taxes and streamlining regulations. Except in dire situations (e.g., the imminent collapse of the financial sector and auto-industry in 2008-09), those investing in businesses -- and reaping the rewards if successful -- should bear the risk, not the taxpayers. And

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such sweetheart deals are inappropriate for a state or locality.

Naturally, many politicians love to pose with celebrities and boast that they have "created" jobs by spreading around tax dollars. But that system too often leads to disaster. The marketplace generally makes decisions more rationally, and cost-effectively, than government can. While investors themselves make mistakes, they tend to do a better job than government in deciding what to support. After all, they have skin in the game. And if they make a mistake, then the taxpayers needn't suffer; the damage is limited. Rational investors had refused to go out too far on a limb with 38 Studios, at least without a government prop.

Until Rhode Island creates a business climate where all sorts of businesses can thrive, the state will struggle economically.

---- INDEX REFERENCES ----

COMPANY: JOHOR CORP

NEWS SUBJECT: (Taxation (1TA10))

INDUSTRY: (Accounting, Consulting & Legal Services (1AC73); Banking (1BA20); Consumer Finance (1CO55); Financial Services (1FI37); Loans (1LO12); Retail Banking Services (1RE38))

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May 18, 2012

Section: Local

Too little cash to cover the check

KATE BRAMSON; PAUL GRIMALDI; KATHERINE GREGG

State returns 38 Studios' payment after being told firm's account had insufficient funds

PROVIDENCE -- 38 Studios tried and failed Thursday to pay the state \$1.1 million it owes as part of the loan program that brought the company to Rhode Island.

At 5 p.m. Thursday, amid a flurry of activity by Rhode Island officials to sort out the implications of the video-game company's financial situation, a 38 Studios representative hand-delivered a check to the Rhode Island Economic Development Corporation's offices.

But just as it seemed the company run by ex-ballplayer Curt Schilling had found a way to stave off some of its problems, things fell apart, according to Governor Chafee's spokeswoman, Christine Hunsinger.

"Upon learning from the Chief Financial Officer of 38 Studios that there were insufficient funds in the account to cover the check, EDC returned the check to 38 Studios," she said. "The EDC remains willing to accept payment with readily available funds."

Schilling's firm, which received a \$75-million loan guarantee from Rhode Island to move the company from Maynard, Mass., missed a \$1.1-million payment, called an annual guarantee fee, due to EDC on May 1. That fee is separate from the interest-only payment made May 1 to holders of the bonds sold by the state. That payment was made from a reserve account set up from the proceeds of the bond sale.

On Wednesday, Schilling and company executives went to an emergency meeting of the EDC's board of directors, held in the EDC offices in the ALCO complex in Providence, to ask state officials for help for Schilling's ailing 38 Studios.

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His company relocated from Massachusetts after Rhode Island offered the loan guarantee, which state officials promoted as generating hundreds of jobs and millions of dollars in tax revenue. The company promised to bring 450 jobs to Providence, and Rhode Island officials hoped it would anchor a video-game development industry.

The company released its first video game, "Kingdoms of Amalur: Reckoning," in February to generally positive reviews. The revenue from that game, apparently, hasn't been enough to keep the company out of financial problems.

A 38 Studios representative could not be reached for comment Thursday.

During the tumultuous day, Chafee canceled a meeting with General Treasurer Gina Raimondo in which she was supposed to be briefed on the developments with 38 Studios.

The briefing Raimondo requested has not yet been rescheduled.

In an impromptu media briefing in her office, Raimondo reiterated her opposition to the \$75-million loan guarantee that the administration of former Gov. Donald L. Carcieri gave Schilling's company.

"I don't think that government should be in the business of venture capital. It's a high-risk business ...," she said. "This was a start-up company. They hadn't launched a game. They didn't have a dollar of revenue at the time that the state put the money at risk.

"The gaming industry is a very risky business. ... It's like the rock 'n' roll business. Some things hit, some things don't, and if they don't hit, you lose all your money."

Asked if she believed the EDC, now chaired by Chafee, had properly monitored 38 Studios over the last year, she said, "I have no reason to assume they haven't monitored it. I just don't know the facts."

For his part, Chafee said, he's adamant about not extending 38 Studios more financial aid.

"I fought very hard to not have further taxpayer investment," Chafee said, recalling Wednesday's EDC board meeting.

Still, the governor said, the state will do what it can to get 38 Studios back on track.

"Now we're going to do everything possible to make it work," Chafee said. kbramson@providencejournal.com (401) 277-7470 pgrimald@providencejournal.com (401) 277-7356 kgregg@providencejournal.com (401) 277-7078

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---- INDEX REFERENCES ----

COMPANY: EDUCATIONAL DEVELOPMENT CORP; RHODE ISLAND PORT AUTHORITY AND ECONOMIC DEVELOPMENT CORP

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May 18, 2012

Section: Local

How much are company assets worth? ; 38 Studios

Paul Grimaldi

Because its primary asset is intellectual property, valuing 38 Studios will be difficult

PROVIDENCE -- The financial struggle of fledgling video-game developer 38 Studios raises the questions of what the Providence company is worth and exactly on what that value is based.

The Rhode Island Economic Development Corporation lured the company led by Curt Schilling to the state with a \$75-million loan guarantee. The EDC sold bonds to cover that guarantee. The company defaulted on its financial agreement with the state by missing payment of a \$1.125-million guarantee fee that was due May 1.

Should 38 Studios be unable to come up with that money and figure out how to finance its operations for the long haul, Rhode Island taxpayers could be forced to pay bondholders. With the interest tacked on, taxpayers could be forced to come up with as much as \$102 million over the next eight years.

The default by 38 Studios raises the prospect that the company could be sold, or even declare bankruptcy, to pay its bills -- primarily the bonds sold to back that \$75-million loan. In either case, people from outside 38 Studios are going to try figure out what the company's assets are and what those are worth.

For a video-game company, its primary assets aren't necessarily something you can touch -- computers, machinery or goods on a shelf.

"It turns out to be a very hard question," said Prof. John G. Palfrey, an expert in intellectual-property law and the director of the Berkman Center for Internet and Society at Harvard Law School.

Much of the company's value is tied to the "intellectual property" it controls -- that is, the ideas that are the very

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heart of the game story it's selling now, "Kingdoms of Amalur: Reckoning," and the more-involved online game 38 Studios wants to create.

Additional value might be found in the computer software code created to run the game, trademarks such as the company's logo, and perhaps, "trade secrets" -- information hidden from public view. Think about the recipe for Coca Cola, the algorithms Google uses to run its search engines, or simply another video game under development.

It appears from documents related to the 2010 bond sale that 38 Studios put up its intellectual property as collateral in exchange for proceeds from the state-backed loan.

"I imagine the intellectual property would come back to the Rhode Island Economic Development Corporation," said Mark Methenitis, creator of the Law of the Game blog and a lawyer in Dallas, Texas. "There is no good way to estimate [the value]."

Even figuring the money the privately held 38 Studios received from game sales is difficult.

"Reckoning" debuted in February to good reviews and decent sales.

From 400,000 to 700,000 copies of "Reckoning" have been sold, according to various sales-tracking firms. Exact numbers are hard to come by because the services have difficulty tracking games sold online. Also, the number of hard copies shipped to a retailer is not necessarily the number ultimately sold.

At \$60 a pop, the game generated from \$24 million to \$42 million in retail sales.

At this point, it's unclear how 38 Studios split sales revenue with Electronic Arts Inc., the giant California game publisher.

"Perhaps they did not get the money they thought they were," Methenitis said of 38 Studios.

That misconception might cost Rhode Islanders.

The practice of governments backing such expensive enterprises to create revenue and jobs is being questioned not just in Rhode Island, but across the country.

"You see politicians trying to go for the grand slam in one swing," said Paul Burton, a writer with The Bond Buyer, which tracks public finance issues. "It's usually a bad idea."

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Burton sees parallels between the 38 Studios deal and projects in Harrisburg, Pa., and Jefferson County, Ala. The former got hurt by a failed trash incinerator, the latter by a botched sewer project. "Does it speak to how badly the business climate in Rhode Island is that they were willing to throw their weight behind him?" Paul Burton said.

The value of a video-game company such as 38 Studios is largely in the intangibles, such as the ideas that make up the game the company released in February, "Kingdoms of Amalur: Reckoning." Above is an image from Reckoning. 38 Studios pgrimald@providencejournal.com (401) 277-7356

---- INDEX REFERENCES ----

COMPANY: COCA COLA CO (THE); ELECTRONIC ARTS INC; GOOGLE INC; RHODE ISLAND PORT AUTHORITY AND ECONOMIC DEVELOPMENT CORP

INDUSTRY: (Application Software (1AP32); Banking (1BA20); Consumer Electronics (1CO61); Consumer Products & Services (1CO62); Consumer Video Products (1CO02); Electronics (1EL16); Entertainment (1EN08); Entertainment Multimedia Titles (1EN60); Financial Services (1FI37); Games Software (1GA28); Home, Personal & Consumer Software (1HO01); I.T. (1IT96); Loans (1LO12); PC, Video & Online Games (1PC44); Retail Banking Services (1RE38); Software (1SO30); Software Products (1SO56))

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May 18, 2012

Section: Local

Loan-guarantee fallout costs EDC chief his job ; 38 studios Financial condition at issue

Kate Bramson

PROVIDENCE -- Governor Chafee could name a new leader for the Rhode Island Economic Development Corporation as early as today, after accepting the resignation late Wednesday of Executive Director Keith W. Stokes.

The governor said he's considering Colin P. Kane and others to lead the agency that's now at the center of a firestorm over Curt Schilling's financially troubled video-game company, 38 Studios.

Chafee spokeswoman Christine Hunsinger said the governor is talking with people who could either lead the agency on an interim basis or step into the role permanently.

Kane, whom Chafee tapped last summer to chair the new Route 195 Redevelopment District Commission, appeared to be an early favorite for the job after his mother, Lorraine Kane, said the governor called her son Wednesday afternoon and offered him the job. Yet by late Thursday, no announcement had been made.

"This is a high, high priority," Chafee said Thursday afternoon at a gathering with reporters, who peppered the governor with questions about the financial status of 38 Studios, which went into default by missing a May 1 payment of \$1.1 million.

38 Studios moved to Providence a year ago after the EDC granted Schilling's firm a controversial \$75-million loan guarantee.

Stokes had been the lead negotiator of that loan guarantee, working with his previous boss, then-Gov. Donald L. Carcieri, to urge the General Assembly to approve the program and finance it.

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Early Wednesday, Stokes sat with the governor at an emergency meeting of the EDC, across from Schilling, as the former Red Sox pitcher sought financial help from the state during a meeting that was closed the public.

Stokes was the only remaining executive from Carcieri's administration who had worked to craft the Schilling deal.

Now, Chafee and the EDC board members are scrambling to understand the finances of the company and find video-game industry experts who can help the state determine the company's financial viability. Yet Chafee said Thursday he's confident they can move forward without the historical background Stokes brought to the table.

"Director Stokes was the chief cheerleader for 38 Studios, right from the beginning," Chafee said Thursday. "So I had confidence that if anybody wanted them to succeed, it would be him."

Asked whether he had been pleased with how Stokes managed the 38 Studios loan situation or whether he had lost confidence in Stokes, Chafee would not say.

"We're going to go forward," he said. "It's always, hindsight's 20/20, but I'm focusing on the future right now, which is challenging."

Wednesday night, after hours of meetings with 38 Studios executives and no resolution about the company's status, Stokes and Chafee talked. Both said they reached the mutual conclusion that it was time for Stokes to go.

"Nobody takes these positions as long-term career moves," Stokes said from his home in Newport Thursday after he said he met with EDC staff earlier in the morning. "You step in at a critical time to try to be a change agent."

Carcieri is the one who asked Stokes to be his change agent, at a time when the agency was under enormous criticism because of a scathing report that likened the agency to a "basket of frogs." That was a reference to how "fragmented" and "disjointed" the agency's efforts were, much like frogs hopping around with no clear direction of where they were headed.

When Chafee took office, questions arose as to whether he would keep Stokes, who acted as Carcieri's point person in creating the loan guarantee program and striking the deal with Schilling. Chafee, the gubernatorial candidate, had been left standing in the doorway of the EDC board meeting in the summer of 2010 when Carcieri rebuffed his attempts to speak out against the Schilling deal to the board.

Yet six months later, Chafee agreed to keep Stokes, saying through a spokesman that his criticism had always been institutional but not personal. Thursday, Chafee shed some new light on the decision he made back then, saying a reason to keep Stokes was his knowledge of the deal.

"There was ... the factor that I did want 38 Studios to succeed."

Since then, Chafee has said it's important that the company survive. If it doesn't, Rhode Island taxpayers could be on the hook for more than \$100 million.

Chafee said he had "some apprehension" that board members would grant concessions to Schilling, "and I fought very hard for that not to happen."

Now, Chafee says he'll have to evaluate the future of the EDC, which he said was a good idea back when former Gov. Lincoln Almond proposed it.

Bill Parsons, the agency's deputy director, who has stepped in as an interim director on several occasions over the last 15 years, remains in his current role and has not taken on an interim directorship, Chafee said.

Chafee said it's too early to say whether he'll seek other personnel changes at the agency, including whether to replace three EDC board members whose terms technically expired on Feb. 1. Chafee decided at the time not to name successors for them, and they remain in their positions. Two of them voted for the 38 Studios deal and one was absent.

One of Stokes' key supporters over the years, Senate President M. Teresa Paiva Weed, said Thursday that it "is very unfortunate" that the state is losing Stokes' service.

In a statement, the Newport Democrat said that under Stokes' leadership, "the EDC was changing from an agency that had been part of the problem to one that was an instrumental part of the solution." She also said Stokes "worked very effectively with the chambers of commerce, the Small Business Administration and the legislature to address the needs of businesses of all sizes."

Paiva Weed, who knew Stokes when both attended Rogers High School in Newport, said his departure "leaves a void which will be difficult to fill."

House Speaker Gordon D. Fox agreed it was unfortunate to lose Stokes.

"Keith is a very dynamic and creative person," he said. "I've always enjoyed working with him... and I consider him a good friend."

As Chafee works to consider what's best for the agency, another former executive director of the EDC from the Carcieri administration said the difficulties run much deeper than finding a new leader.

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Michael McMahon, who is now managing director of a private- equity firm in New York, said the former governor tapped him because he wanted someone with a business background who was not "enmeshed in the ways of Rhode Island."

"The good news is, there've been a lot of reports done over the years to identify what Rhode Island should be doing," McMahon said. "The conclusions are obvious. The implementation has been politically impossible."

McMahon cites three changes the state must make: fix its education system; turn around its reputation as a difficult place to do business because of high taxes, government costs and bureaucracy; and update its infrastructure -- roads, bridges and airport -- in a timely fashion.

"It's unfair to blame the EDC because if you go back to the three issues I identified as crucial, they are not within the EDC's control, and until people focus on those three issues, it's like trying to bail a rowboat that has a huge hole in the middle of it."

McMahon says that's what every director of the agency, including himself, has tried to do.

"Nobody takes these positions as long-term career moves." Keith W. Stokes, who resigned from the EDC
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---- INDEX REFERENCES ----

COMPANY: RHODE ISLAND PORT AUTHORITY AND ECONOMIC DEVELOPMENT CORP

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OTHER INDEXING: (RHODE ISLAND ECONOMIC DEVELOPMENT CORP) (Bill Parsons; Chafee; Christine Hunsinger; Colin Kane; Curt Schilling; Donald Carcieri; Gordon Fox; Keith Stokes; Lincoln Almond; Lorraine Kane; M. Teresa Paiva; Michael McMahon)

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May 18, 2012

Section: Local

The gamer, the gamed and a gamble

Why didn't the guy just open a bar, like so many jocks do when their arms and legs are no longer competitive grade? Maybe Curt's Place, The Changeup, The Full Count, Top O' The Fifth.

There could have been lots of pictures covering the walls -- hugging, sweating, running, throwing, champagne-popping pictures. And autographed balls, framed uniform shirts, a Fenway pitching rubber to stand on while making jukebox selections, pennants, swizzle sticks in the shape of baseball bats, press clippings neatly matted and framed and the warmly inscribed picture of the pitcher and George W. Bush over the men's room urinal.

It could have been a place where a guy wearing a Red Sox cap backward could yell "throw me a high hard one" to the bartender and know a shot and a beer were coming his way.

Jerry Remy might have stopped by.

And on tap? Bloody Sock Stout, locally brewed.

It could have been a rich side-street refuge, a beer and whiskey place where every customer could feed on beer nuts and World Series memories -- and the enduring expectation of actually seeing the pitcher come in and do a star turn on the bar rag.

But it didn't happen. Instead of the bar, we have 38 Studios and a slight chorus of snickers building to a torrent of guffaws spilling over the border from Massachusetts.

Or, as The Boston Globe's Hiawatha Bray led off on the front page Wednesday:

"Curt Schilling's video game company was the one that got away -- and as it turns out, maybe that is OK."

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Which is a polite way of saying that Rhode Island and its crack economic-development team of a couple of years back are looking like major-league chumps.

This is such a mess, such a sordid, embarrassing tangle of arrogance, vanity, stupidity and jock-sniffing delirium. Former Gov. Don Carcieri, who always touted himself as a savvy businessman, led the way into the kind of deal that smelled dumb from the beginning.

Carcieri and the Economic Development Corporation gave away the store. They approved a \$75-million loan guarantee to lure Curt Schilling and his video-game company away from Massachusetts. The action appeared to be based on little more than the secondhand scent of the Red Sox locker room. There was no product, no track record, no nothing but the opportunity to spend some expensive time with the pitcher.

Now, 38 Studios can't meet its financial obligations to the state. It is a company that appears to be running ahead of itself in a business as fickle as a kid's fantasies.

Keith Stokes, the executive director of the Economic Development Corporation, has stepped up to fall on his sword and resign. But there are still a dozen questions to be answered. Carcieri needs to explain. Then the tortured speculation can begin: How might that loan guarantee have been used to help struggling start-ups in Rhode Island and provide help to businesses that actually have real products, if not a pitcher in management?

We are left, finally, with the sad irony of Schilling and his well-known conservative politics clinging to the public spout and asking for more. He could still open a bar. This one could be called Low And Inside.

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---- INDEX REFERENCES ----

COMPANY: BOSTON GLOBE ELECTRONIC PUBLISHING LLC; JOHOR CORP

INDUSTRY: (Agriculture, Food & Beverage (1AG53); Alcoholic Beverages (1AL86); Bars & Nightclubs (1BA02); Baseball (1BA48); Beverages (1BE22); Consumer Electronics (1CO61); Consumer Products & Services (1CO62); Consumer Video Products (1CO02); Electronics (1EL16); Entertainment (1EN08); Food & Beverage Production (1FO79); Non-traditional Alcoholic Beverages (1NO30); PC, Video & Online Games (1PC44); Sports (1SP75))

REGION: (Americas (1AM92); Massachusetts (1MA15); North America (1NO39); Rhode Island (1RH18); U.S. New England Region (1NE37); USA (1US73))

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May 18, 2012

Section: News

Bringing 38 Studios to Rhode Island

2010

February: Curt Schilling's 38 Studios begins talks with state officials.

March 6: Schilling and former Gov. Donald L. Carcieri meet at a charity fundraising event at Schilling's home in Medfield, Mass.

March 10: House Speaker Gordon Fox tells Keith Stokes, the Economic Development Corporation's executive director, that Schilling's company is interested in moving from Maynard, Mass., to Rhode Island; Carcieri tells Stokes the same thing.

June 11: Carcieri signs into law Assembly-approved bill authorizing EDC to guarantee up to \$125 million in economic development bonds.

June 14: EDC directors vote preliminary approval of a \$75- million loan guarantee for 38 Studios.

July 26: EDC board grants final approval of 38 Studios loan guarantee; Schilling's firm promises to create 450 jobs.

July 27: During a radio interview, gubernatorial candidate Lincoln Chafee criticizes loan guarantee and impugns Schilling's famous bloody sock.

July 28: During a radio interview, Schilling defends transaction.

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Sept. 18: EDC says **Schilling's** video-game company won't be able to use money backed by the loan guarantee to receive state tax benefits, specifically the film-tax credit.

Sept. 23: **38 Studios** announces it has picked a location, One Empire Plaza, in downtown Providence. Bond-rating agencies Moody's and Standard & Poor's issue favorable ratings for the bonds underpinning the \$75-million loan guarantee.

Oct. 12: **38 Studios** reveals a few details of its upcoming game, "Kingdoms of Amalur: Reckoning."

Oct. 18: Gina M. Raimondo, then a candidate for state treasurer, calls the deal "as high risk a venture as you can find." A venture capitalist, Raimondo said her colleagues in the Boston area "looked at the deal and decided to pass."

Nov. 2: Bond sale completed; **38 Studios** receives first \$13- million installment. Stokes calls it "catalytic economic development."

2011

March 14: **Schilling** offers a glimpse of **38 Studios'** first game, "Kingdoms of Amalur: Reckoning," at a conference at the Boston Convention and Exhibition Center.

April 8: **38 Studios** starts moving into its new Providence headquarters.

Nov. 1: First scheduled payment made to bondholders from reserve fund raised as part of bond sale.

Nov. 8: EDC releases final installment of \$1.38 million to **38 Studios**.

2012

Feb 7: About 150 people are on hand to meet **Schilling** at a video- game store in Bellingham, Mass., at midnight when "Kingdoms of Amalur: Reckoning" goes on sale for \$59.95. The game receives positive reviews.

March 10: Sales of "Reckoning" among top five video games, according to a market research firm.

May 1: **38 Studios** defaults on loan by failing to make a \$1.1- million loan-guarantee payment to the EDC.

May 14: After meeting with **38 Studios** executives and EDC officials, Chafee says they're reviewing "all the financials." What's at stake, he said, is "keeping **38 Studios** solvent."

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May 15: Chafee calls emergency EDC board meeting to discuss Studio 38 situation.

May 16: **Schilling** appears at EDC meeting to ask for more financial help; Chafee says state needs more financial information.

May 17: Stokes' resignation made public; Chafee searches for successor; 38 Studios tries and fails to make \$1.1 million payment.

In July 2010, Curt **Schilling**, left, listens as then-Gov. Donald L. Carcieri speaks on behalf of **Schilling's** project, calling it a job-creation effort. Journal Files / Bob Thayer

The logo from "Kingdoms of Amalur: Reckoning." 38 Studios

In February, Curt **Schilling**, his wife, Shonda, and their children appeared at GameStop in Bellingham, Mass., when "Kingdoms of Amalur: Reckoning" was released. Journal Files / Bob Thayer

On Wednesday, Curt **Schilling** is hounded by photographers and reporters as he leaves an emergency meeting of the Economic Development Corporation directors. Journal Files / Mary Murphy

---- INDEX REFERENCES ---

COMPANY: GAMESTOP CORP; JOHOR CORP; MOODYS CORP; STANDARD AND POORS FINANCIAL SERVICES LLC

NEWS SUBJECT: (Economic Development (1EC65); Economic Development Agencies (1EC15); Economics & Trade (1EC26))

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May 18, 2012

BRIEF: Curt Schilling's 38 Studios gives R.I. EDC a bad check for \$1.1 million
Kate Bramson
The Providence Journal, R.I.

May 18--PROVIDENCE, R.I. -- Curt Schilling's 38 Studios tried to make its overdue loan-guarantee payment Thursday afternoon with a bad check, Governor Chafee's spokeswoman said.

The state returned the check, said spokeswoman Christine Hunsinger.

The amount in question: \$1.125 million.

"38 Studios arrived at EDC at 5 p.m. with a check. Upon learning from the CFO of 38 Studios that there were insufficient funds in the account to cover the check, EDC returned the check to 38 Studios," Hunsinger said at 5:47 p.m. "EDC remains willing to accept payment with readily available funds."

Hunsinger said she did not know if 38 Studios Chief Financial Officer Richard Wester delivered the check and told the person who took it that there were insufficient funds to cover it, or if someone at the EDC had a later conversation with Wester that revealed that information.

The original version of this story was posted at 5:50 p.m. A revised version was posted at 6 p.m.

More news on 38 Studios

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